WORLD DEPRESSION TO WORLD PROSPERITY

By

A. G. McGREGOR, B.S.M.E.

Consulting Engineer and Member American Institute of Mining and Metallurgical Engineers and American Society of Mechanical Engineers

LONDON
P. S. KING & SON, LTD.,
ORCHARD HOUSE, WESTMINSTER

1923

PREFACE

So many conflicting views have been recently expressed by our outstanding political and industrial leaders as to what will remedy the present deplorable economic conditions throughout the world that the author was led to take the view that there must be a basic cause and there must be a really sound remedy. On this basis he began putting on paper his deductions, reached from a consideration of the various factors involved, and was soon much surprised to find that some of our commercial practices, which on the surface seem very natural, and harmless enough, are really most insidious and fallacious, and lead to far-reaching maladjustments and direful consequences. He was further surprised to find that the fallacies practised are not only the direct cause of the grotesque situation in which we now find ourselves, but that the same fallacies bring about the friction and bad feeling between nations which were the real cause behind the Great War, and are now the chief obstacles to disarmament and permanent world peace.

As the author lays no claim to being an economist or an idealist, it is hoped what is written will be considered in the nature of an engineer's memoranda on the cause of, and remedy for, our present-day suffering and the results which would naturally follow the removal of our fallacies, and that it will

prove helpful in pointing the way to the correct course at a time when there is so much bewilderment.

In the effort to make his thesis readable, the author found comfort in the following, quoted from the introduction to the " Macmillan Report " recently presented to the British Parliament :—

" In view of the generally uninstructed state of the public on matters of finance, we have from the outset recognised that not the least important service we might render would be to act as interpreters of the working of the monetary system, and to make its main principles intelligible to the ordinary mind. Indeed, if our recommendations are to commend themselves to the public to whom they are addressed, they must be preceded by an intelligent appreciation of the problems to be solved. But this is an aspiration which we have not found it easy to realise. The subject is peculiarly intractable to handle from the popular point of view. The economic experts have evolved a highly technical vocabulary of their own, and in their zeal for precision are distrustful, if not derisive, of any attempts to popularise their science. Moreover, agreement among the professors of the science is, as we have experienced, even harder to find than it generally is among experts, and in their anxiety to avoid controversy they tend to avoid committing themselves to any definite conclusions. The difficulty of exposition really arises from the inherent nature of the subject matter. Political economy, like law, is not an exact science. It is concerned with a realm in which the incalculable elements of human psychology play a large part and the interplay of forces is extraordinarily complicated. . . ."

The author is not in the least proficient in the use of the " highly technical vocabulary " of the economic experts, and hopes that this fact may have proved helpful in rendering the entire contents of his thesis

readable by the average business man, employer of labour, labour leader, political leader, the clergy, etc., especially if they are feeling the pressure of the depression, or are zealous for world peace. The author, however, urges the " economic experts " and " the professors of the science " and those experienced in analysing accounting and banking problems, to give the proposals herein laid down their patient and most critical scrutiny, as a new economic plan, if it is adopted, must first pass such tests.

With a consideration of the fallacies now existing in our system, it is believed the discouragement experienced by the Macmillan Commission in getting " agreement among the professors of the science " will not be surprising. Also it is believed that, on the basis of the elimination of our fallacies, the present contradictions and inconsistencies of many of the tenets of political economy would disappear, and political economy could then become a more exact science.

In order to lead up to the analyses and solutions of the present world problems in Chapter VII, which was the real object in mind at the outset, without tedious qualifying explanations, some of the statements made in the earlier chapters, taken by themselves, will not bear critical analysis; but it is believed that most of such shortcomings will be cleared up, or will be regarded as unimportant, from what follows in subsequent chapters.

A. G. McGREGOR.

CONTENTS

WORLD DEPRESSION TO WORLD PROSPERITY

INTRODUCTION

WE are all aware that it has been our habit for the past few decades, especially in the more developed nations, to make the luxuries of yesterday the necessities of to-day. We have realised that the secret of our development has been through the production of goods for one another, and we have said, As the wants of man are unlimited, we need have no fear about over-production; and yet, in the midst of plenty, and with the facilities for producing all our hearts can desire, unemployment and suffering are prevalent throughout the land. Can there be anything more distressing than to be born into this world with an ambition to work and produce and satisfy our material wants, and then to be prevented from performing honest labour?

Every needful thing has been bountifully supplied by Nature.

Vast facilities for production are idle and craving activity.

Vast armies of men are idle and craving the

products of the idle facilities and the opportunity to exchange their best services for the products of industry.

The natural pressure upon capital and upon labour to use each other in satisfying their cravings is tremendous.

The fallacies in our system which keep our idle men and our idle facilities apart are serious indeed.

The debtor nations are discouraged on account of their shortage of gold.

The important creditor nation is despondent on account of its over-supply of gold.

Other nations are not so troubled about their own gold status; but they have cause for worry owing to the international trade breakdown, resulting from the worries of those having too little gold and those having too much gold.

As will appear later, these troubles are not mental, they are real, and were there not so much human misery involved, the way we have allowed ourselves to get into our present almost hopeless tangle would be ludicrous in the extreme.

High living standards are possible only through industrialisation. Periods of adversity and unemployment in a highly industrialised nation can be prevented only through continuous equilibrium in commerce and industry. Equilibrium in industry requires close harmony with economic laws and forces at all times.

We have made wonderful advances in science and inventions and in bringing about more efficient production. Our advances in economic practices,

however, have not kept pace with our advances in invention and production efficiency. We are limited in the benefits of the latter through our neglect of the former.

For success in the operation of our complex mechanical machines of production, many of which are present-day wonders in perfection, close harmony and co-ordination with the laws of mechanics have been vitally essential in the functioning of each small part. We have demonstrated a high degree of intelligence in eliminating fallacy and in providing devices in such machines which allow the laws and opposing forces of mechanics to operate and function in a most orderly way.

As industrialisation progresses, the greater becomes the need for using our intelligence in eliminating fallacy and in providing the machinery and the devices which will allow economic laws and forces to operate and function freely, but in an orderly way.

Serious fallacies exist in our practices in internal commerce and in our practices in international commerce, which have combined to bring about our present deplorable world depression, and which will be considered in due course, with their remedies.

We will first consider the fallacies in our international dealings. If we had no international dealings, trade depressions would be easily avoided.

CHAPTER I

FALLACIES IN INTERNATIONAL DEALING

Fallacy of Foreign Loans

"In 1795 Austria raised the first war loan. It was floated in England. The sum was £4,600,000—an amount unprecedented in those days. The loan was opposed unavailingly at the time by Fox. For three years Austria made her half-yearly repayments. Then nothing more was paid. On the contrary, fresh advances seemed necessary, on account of Austria's gold shortage, and were made, and by 1823 the British claims on Austria amounted to £15,648,730. The British Government of the day settled this war debt for £2,500,000, or roughly three shillings in the pound."

Since 1795 many loans have been made to foreign Governments, and many of them have been repudiated, or settled at a very great discount. For most of those which have not yet been settled repudiation or settlement at a material discount now seems the only possibility.

When individuals borrow money, it stimulates them to increase their efforts, produce more efficiently and economise so as to pay off the loan.

A nation may borrow, but its borrowing in no way

stimulates greater efficiency or the use of more energy or economy in production by its individuals, which will be helpful in gaining the favourable international trade balances necessary if the debt is to be liquidated. In fact, quite the contrary results, as capital simply will not work under unfavourable conditions.

When times get bad in a nation, immigration laws compel labour to remain at home and suffer, but, without embargoes on gold exportation, liquid capital is free to move into any part of the world. The gold wages paid to labour vary widely throughout the world. The interest paid capital, considering the hazards involved, is practically the same the world over. Capital is shy of high taxes and unemployment, which always accompany or follow gold borrowing by a Government.

Capital will remain idle rather than work under unfavourable conditions. Industry cannot thrive if those having savings are cautious in their spending through uncertainty about the future.

All the effects of a loan to a debtor nation operate to make it still more difficult for the debtor nation to gain a favourable trade balance.

A " gold loan " or a " gold credit " to a nation is most thoroughly unsound, and is the worst thing in the world for it when it is in financial difficulties; any benefits are but temporary.

At the end of its Civil War the United States had extensive foreign loans standing against it. Fortunately for the U.S., gold was found in bounteous supply in Nevada and other parts of the west, which

made it easy for the U.S. to liquidate its foreign indebtedness in gold.

At the end of the Franco-Prussian War of 1870 the French had what then seemed a heavy gold indemnity assessed against them. Fortunately, however, the gold hoardings of the French peasants made it comparatively easy for France to pay the indemnity in gold.

At the present stage of the world's development there do not happen to be gold hoardings in the debtor nations, or any undeveloped part of the world, whose resources or population can be exploited by the debtor nations to make favourable world trade balances for them.

In our present stage of industrial development, the only way in which the debtor nations can liquidate their debts will be by the creditor nations taking more goods from them than the creditor nations sell back to them.

No nation without gold resources beyond possible favourable international trade balances has ever yet paid its foreign debts in full, and thus successfully extricated itself from a serious debtor position.

Gold borrowing by a Government is thoroughly fallacious, and the sound alternative will be apparent later.

Free Trade Impossible while International Trade Balances are Paid in Gold

Let us notice what happens when a creditor nation over-sells into a debtor nation. The selling nation

derives all the benefit from the industrial activity incident to the production of the goods. Also it gets foreign money, which gives it a further credit for its international balance in trade, and its gold reserves increase. What happens to the debtor nation receiving the goods? Its purchasing power is used for buying foreign goods, its industry is slowed down accordingly, with unemployment, and its internal tax burden is increased, adding to the costs of its own products; and thirdly, great harm and grave injustice come to the debtor nation, which it is powerless to prevent without a protective tariff. Its currency, which its own people used for paying the sellers of the creditor nation for their goods, goes to the international money-changers, and the Government of the debtor nation is compelled to redeem its currency representing its international trade debit account, not in the sound security really back of its currency, or in goods which the debtor nation produces, but in gold, a commodity which the debtor nation does not produce. This makes further difficulties for the debtor nation.

Paying in Gold Increases Vulnerability of Debtor Nation to Creditor Nation's Goods

The effects of exports in excess of imports combine to decrease the purchasing power of the debtor nation's currency for goods made by its workers, and give greater purchasing power to its currency for foreign goods, thus accelerating, at an ever-increasing rate, the debtor nation's financial strain and the

debtor nation's vulnerability to creditor nation's goods. So the vicious cycle progresses, and, if bankruptcy is to be avoided, the Government of the debtor nation, like a parent in financial difficulties, must exercise some restraint on the purchases of its children; this the debtor nation can do only by introducing safeguarding measures.

In other words, in the settlement of our international trade balances, the nation having the debit balance finances *with gold* the credit balance of the creditor nation, which automatically increases the trouble of the debtor nation.

Here lies a fallacy of our international trade settlements, which is responsible for many of the world's woes. This payment of the international debit balances in gold is compound usury of the most subtle, yet most malignant form, that automatically makes a bad situation worse.

As stated previously, no nation without gold resources beyond possible favourable international trade balances has ever yet successfully extricated itself from a serious debtor position. Is there any wonder that nations seriously in the debtor position have found safeguarding measures, such as protective tariffs and embargoes on gold exportation, necessary in making even an attempt to avoid losing more ground?

Over-selling Merchant Finances his own Over-selling in Internal Commerce

We have come to realise that, with our present state of industrial development, one nation can wipe

out a debit balance against it only by a credit balance later in its favour—that is, it must sell more goods to foreign nations than it receives. It can pay with goods only. If it cannot pay with goods, it simply cannot pay! Let us notice what happens in our internal commerce in such an event. If a merchant sells more goods than the customer can pay for at the time, the merchant—the over-seller, finances—and bears the financial strain of his over-selling. The earning power and ability of the customer to liquidate in the future are hampered in no way by such over-selling. The merchant bears the interest charges involved, not the unpaying customer. If the condition does not improve, the customer's credit is curtailed or cut off altogether.

Why Should not the Over-selling Nation have Financial Burden of its Over-selling?

If a nation over-sells, why should it not bear the financial strain arising from its over-selling? Is not this sound economically and sound ethically? Is it not the *Golden Rule* and fair play in the settlement of international trade balances? Only in this way shall we have a sound equaliser for international trade which will automatically bring about equilibrium and stabilise prosperity and goodwill among nations. ANY OTHER PLAN WILL BE BUT A TEMPORARY MAKESHIFT. With fair play working in the settlement of international trade balances, international trade would take on an entirely new aspect,

and the maladjustments would automatically correct themselves.

Now the nation whose people buy more than they sell in world markets has all the worry. Under the *Golden Rule* plan for international trade settlements, the nation which sells more than it buys—that is, the nation which over-sells—would bear the financial strain of its over-selling, just as the merchant bears the burden when he sells more than his customer can pay for.

Why should the finances of a debtor nation which does not produce gold be embarrassed by individuals of other nations selling to consumers in the debtor nation more goods than the sellers of the debtor nation happen to sell to consumers of other nations?

When we stop to consider, is it not rather absurd that the Treasury of the debtor nation should be saddled with the responsibility of paying with gold for all the excess goods it happens to suit the fancy of exporters of foreign nations to sell to debtor nations in exchange for the currency of the consumers of the debtor nations? Is this international justice?

Not so much harm would be done the debtor nation if the creditor nation were required to hold the currency of the debtor nation until such time as its consumers could use it for purchases from the debtor nation.

The ideal in international commerce would be that each nation's purchases exactly equal its international sales at the end of the year. This, of course, is impracticable. There must be some excess one side or the other. Which nation then will feel the burden

of financing the cost of this excess the least, the debtor nation or the creditor nation?

If only so-called capital goods, machinery and materials having potential productive power in them were exchanged in international commerce, there would perhaps be a little more excuse for burdening the debtor nation with financing the creditor nation's over-selling. However, the great bulk of international commerce is in food products and luxuries and goods, the purchasing of which detracts from the productive power of the consuming debtor nation to the amount by which its purchases exceed its sales in international commerce.

By making our internal currencies redeemable in gold for international transactions, this alone, if the debits and credits are important, greatly benefits the creditor nation at the expense of the debtor nation, as we have seen and shall more particularly note later. In addition to this, the creditor nation derives all the benefit of its increased productive activities together with which purchasing power is created, while for the debtor nation the debit balance means the complete loss of the debit amount in purchasing power from which there is no return in purchasing power. In other words, for the debtor nation the debit amount means that that amount was spent by its people, which gave no employment to its own labour or to its own invested capital. Such spending in a nation, when once it is started, leads to no other end but serious unemployment, and, finallv. to bankruptcy, if it is allowed to continue.

Why should not the creditor nation finance the

over-selling of its exporters? Is not this fair play, and the least that could be expected of the creditor nation?

When a creditor nation loans gold to a debtor nation, and increases its vulnerability to the creditor nation's goods, is not the debtor nation being duped?

When a debtor nation seeks to borrow gold "for stabilising its currency" is it not labouring under a delusion?

CHAPTER II

FALLACY OF PRESENT MONETARY SYSTEMS

THREE kinds of currency now in use may be described :—

1. *Gold and Silver*

All are familiar with the use of silver coin as currency and many people now living remember the time when gold coin was commonly circulated in the same way. At one time only metal currency was used.

For handling large transactions, the gold or silver required was bulky and inconvenient. Later, the Treasuries of the various nations improved this situation by holding the gold or silver in their vaults, against which they would issue certificates of various denominations. These certificates were exchangeable for the amount of gold or silver specified on them, at any time, on demand. Such paper currency was convenient and, naturally, was respected.

2. *Printing-press Currency*

The demand for currency varies widely from time to time, and a shortage is a serious hindrance to the free flow of commerce. The people having gained confidence in paper money, a Government would remedy this shortage difficulty by issuing paper

money for its expenditures, which it, in turn, would accept in payment of taxes, duties, etc., owing it. Such paper currency often exchanged on a par with gold, and the practice was not very harmful so long as it was kept well within safe bounds; but the fallacy of such money arises through the ease with which paper money can be printed, and the temptation to abuse the privilege by working the printing press beyond the sound limit and the taxation to be endured if the supply is to be contracted. Russia at the present time is using this kind of currency only in her internal commerce.

3. *Bank-note Currency*

Well secured notes and mortgages are often negotiable, and, in effect, are exchanged as currency at their face value in large transactions between financial institutions. The security of such negotiable paper was, and is, gilt-edged; but such paper is not practical as legal tender, on account of the inconvenient denominations used and the lack of durability and standardisation in size, shape, etc. Also as each piece of such paper matures, it would have to be withdrawn from circulation on its due date. Someone, recognising the most stable worth and security back of such negotiable notes and mortgages and Government bonds, etc., proposed that these be made the basis or security for the issue of bank-notes. When we stop to consider, can the human mind conceive of a more stable and worth-while security than the land or improvements or the commodities

which are back of the negotiable notes and mortgages held by banks? Each bank-note in circulation which is backed by such security may then be considered as a part interest in a negotiable note or mortgage or bond which was the basis for its issue.

To-day private banks in England may take their well-secured notes and deposit them in effect with the Bank of England, as collateral for which they are loaned currency, often at a low rate of interest. This interest rate is commonly designated the re-discount rate.

The money so loaned by the Bank of England may be used by the private bank receiving it, for meeting the demands of its depositors, or it may be loaned to other customers in exchange for other notes. The same plan is in operation in other modern nations. In the U.S. the Federal Reserve Banks take the place of the Bank of England.

The money loaned by the Bank of England or the Federal Reserve Bank, as the case may be, is not only secured by a good margin in the notes and collateral deposited with it, but it is further secured by the indorsement of the private bank receiving the loan. In addition to this, in England the resources of the Bank of England are back of its bank notes. In the case of the U.S., the resources of the U.S. itself are back of its Federal Reserve bank-notes. Each piece of credit currency in circulation therefore represents, in effect, a part interest in a trebly secured first mortgage on land or improvements or commodities of commerce, of the most sound and stable value.

The security back of our modern bank-note currency is the most real and most stable in material worth it is possible for the mind of man to conceive, and the ease with which the supply can be adjusted to suit the demand, for the purposes of internal commerce, invests it with the possibility of becoming one of the greatest aids to the well-being of mankind ever invented.

Regulation of Present Currency most Fallacious

There is absolutely nothing wrong with the present currency in the way of what is back of it. It is ideal, and leaves so little to be desired in this respect that it is safe to predict it can never be materially improved upon. It is the way the supply of our most useful bank-note currency is regulated, and our disregard of its true value and its proper function, which cause our economic distress.

The great harm to our economic equilibrium results from the way we rigidly tie gold, a commodity of varying value, to our bank-note currency having such stable worth back of it.

At one time the supply of gold or silver was sufficient to meet the demands for currencies throughout the world, or, putting it another way, the internal and international commerce of the nations of the world was limited to the supply of gold and silver available for fulfilling the part required of a currency in such commerce. Under such conditions, international currency was being used for all commerce, and it was perfectly natural for a seller of one nation

to exchange goods with a buyer of another nation for gold or silver, the international currency.

Now conditions are quite changed. New gold is relatively much scarcer than it was. We have become industrialised, and the ratio of the value of the other commodities produced to the value of the new gold produced has increased many, many times, so that now the gold which is produced currently is a relatively small factor in the settlement of current international trade balances. The only way left for a nation to get gold for meeting its international obligations is by forcing international trade balances in its favour and this, incidentally, is the source of most of our international rivalry and discord.

Each modern nation has now its own paper currency for taking care of all its internal commerce. The use of gold, it may be said, is confined wholly to international transactions. Everything works out all right now so long as each nation buys about as much as it sells in international commerce; but when important international debit and credit balances make their appearance, trouble arises. A domestic currency redeemable in gold has been used for international purchases.

The custom of, and pride in, using an international currency was so fixed upon us that we thought that this wonderful bank-note currency of such fixed and stirling worth could not function without tying it rigidly to, and making it interchangeable with, gold, a commodity of varying value, but which has been enjoying the confidence of the commercial world from time immemorial as the international currency.

When the idea of a sound bank-note currency was evolved, it was therefore natural to think it should be tied to gold, as it has been.

The theory is that if gold seems plentiful, and is coming to a nation easily, that nation's bank-note currency should also be made plentiful by lowering the re-discount rate, and thus "maintain the bank-note currency on a parity with gold." In the same way, if gold is scarce in a nation, the re-discount rate is raised, so that bank-note currency is made more scarce, and such currency is thus made to "maintain its parity with gold." The theory is quite sound and works very nicely for all concerned so long as there is equilibrium in international trade, and no nation has cause for concern about its gold reserves. Let us examine how it works out in practice when important debits and credits make their appearance in international trade, and note the evil of gold.

When the gold reserves show tendencies to increase beyond what is thought to be a necessary normal in one nation, that nation lowers its re-discount rate and its industries flourish owing to a plentiful supply of sound bank-note currency. The capital costs of its goods in gold value are thus decreased, which causes them to move into foreign markets still easier, and increases the gold coming to it.

When the gold reserves are being depleted in a nation, such a nation raises its re-discount rate, increasing the cost of bank-note currency and thereby reduces the supply of such currency with the idea of making gold more expensive to its people, and hoping that this will deter its use for purchasing foreign

goods. However, this increases the cost of the bank-note currency to its industries and thereby increases the capital costs in gold value of its own products, and renders the debtor nation still more vulnerable to foreign goods, with a further lowering of its gold reserves.

With the high cost of currency due to gold gradually slipping away from a nation, and with unemployment of labour and productive facilities, its people may become desperate and in such circumstances many nations have borrowed foreign gold for the purpose of "stabilising their currencies." The borrowing of gold for this purpose increases the interest that must be borne by the debtor nation for such gold, and increases its taxes and adds further capital costs to its products, thereby further increasing its vulnerability to foreign goods, and bringing about more unemployment and the flight to foreign fields of more of its capital.

When a nation once gets well started on buying more goods from world markets than it sells to world markets, the only way it can possibly save itself from a complete collapse, under our present monetary system, is by the imposition of safeguarding duties or embargoes on gold exportation, or both, or by repudiation of its gold loans.

This settling of international trade balances in gold, a commodity which is not consumed, is what upsets the equilibrium in international trade. If the international trade balances were settled by payment in coal or in some other commodity which could be consumed by the nation receiving it, the result would

be entirely different. Under this condition a nation would be compelled to consume as much from foreign markets as it sold into foreign markets, and a nation's international trade would be kept in constant equilibrium. Under present conditions no nation can hope to continue to sell more in the long run into the world's markets than it takes out. England was successful in this for many years. During England's so-called palmy days vast private fortunes were built up by her manufacturers and traders. The handicap of accumulating too much gold in England from favourable trade balances was offset by the private investment of gold abroad.

With the tendency towards industrialisation throughout the world, which will materially increase rather than decrease, and with the current gold production relatively much less, the age for continuous favourable balances from trade in merchandise has passed.

With the resources for sufficient bank-note currency which the more developed nations enjoy, there is not the same proportional demand for money in foreign developments as formerly. The main demand for gold loans now is by foreign Governments seeking "to stabilise their currencies," which as a rule defeats its object by facilitating the ease with which their people can continue buying more from foreign markets than they sell into foreign markets.

When once the equilibrium in international trade is disturbed, the paying in gold aggravates the situation, and automatically increases the swing from equilibrium, and is likely to bring on a breakdown

in international commerce, with very disturbing influences on the internal commerce of the nations involved. It is this paying in gold that causes periods of prosperity and adversity to run in cycles and makes Free Trade impossible.

In the debtor nation it would be very desirable to increase the cost of the gold required for purchasing foreign-made goods, and thus restore international trade equilibrium. To do this, however, with our present monetary systems, increases the cost of money to internal commerce, and thus increases the cost of the goods made in the debtor nation, and slows down its industrial activity. In the debtor nation it is impossible to make an adjustment in the interest rate for restoring equilibrium in international commerce that will not be harmful to internal commerce. Here lies a great fallacy in our monetary systems which prevents a debtor nation from liquidating its debts. This is why, when gold starts leaving a debtor nation, the agency regulating the interest rate finds itself in a very difficult position. Whichever way the re-discount rate is moved, it is wrong. Is there any wonder we are so dead-locked and powerless to improve our present situation, with our present monetary system, when the governing forces work at such cross purposes?

The results from the way we tie our bank-note currency to gold might not be so bad if the value of the gold supply in the exchequers of the nations of the world had a closer connection with the value of the labour that would be required for replacing it in any reasonable time. The exchange value of

gold is unstable and artificial. The amount of new gold that can be produced in a year is of little consequence compared with the unconsumed supply in the exchequers of the world. This disparity has been tending to increase.

If the value of the unconsumed gold now on hand rested more firmly upon the labour required for replacing it in a reasonable time, which is the real terra firma upon which the value of all other commodities rests, the way we have tied our bank-note currency to gold might not be quite so distressing.

A great drawback to the use of gold as the standard of value or any other international currency lies in the very high degree of intelligence and unselfishness required if periods of unemployment and depression are to be avoided in the nations using it.

In world commodity markets the demand for commodities and the demand for gold—the international currency—are kept equalised in the long run. Often this is not accomplished smoothly, however, and abrupt adjustments take place from time to time.

The essential for continuous employment and prosperity in any nation is the continuous maintenance of that relation between wages and commodity prices which brings about no shortage or over-supply of labour or commodities—equilibrium between wages and commodity prices, or—equilibrium in industry.

This equilibrium is very sensitive, and once it is disturbed much harm often results before it can

be restored. If a nation, on account of its pressure for gold, or its superior efficiency in production, or for any other reason, starts selling important quantities of its commodities into world markets at reduced prices in terms of gold, such a condition will disturb the equilibrium between wages and commodity prices in another nation, and bring about unemployment and depression in the latter nation, if sufficient intelligence is not exercised in lowering wages so as to retain the equilibrium between its wages and commodity prices.

Even if sufficient intelligence were used in lowering wages so as to retain equilibrium between wages and commodity prices, the lower commodity price levels in terms of gold would inequitably benefit all creditors at the expense of all debtors, and would still bring about results disturbing to industry. Therefore the satisfactory use of the gold standard would also require that sufficient intelligence and unselfishness be used to permit the liquidation of all debts in gold on the basis of the purchasing power of gold prevailing at the time the debts were contracted.

The need for the exercise of so much intelligence and unselfishness makes the achievement of the ideals in industry for any length of time under the gold standard, or any other international currency, practically an impossibility.

CHAPTER III

A SOUND MONETARY SYSTEM

WE will next consider a little change in the standard to which the supply of our bank-note currency of such intrinsic worth may be regulated, and note first how it would automatically place our international dealings upon a sound and ethical basis, and then, later, note the great benefits that would result to our internal commerce.

The bankers' theory that their system of regulating the supply of bank-note currency will maintain such a currency on a parity with gold, regardless of the variation in the value of gold, has been demonstrated beyond question to be 100 per cent. correct. The fact that the supply of gold may play out, leaving no gold with which to keep the bank-note currency at a parity, should not be charged against the accuracy of the theory.

If, by the use of the theory, the gold reserves increase in creditor nations and decrease in debtor nations to a point where there is a complete breakdown in international trade, this undesirable result must not be considered as in any way impeaching the theory.

Undoubtedly gold was acting much in the same way nineteen hundred years ago, when the Teacher

of Nazareth remarked, "Unto him that hath shall be given, and he that hath not, from him shall be taken away even that which he hath."

The principles involved in the bankers' theory, proved to be 100 per cent. correct, for controlling the exchange value of a sound bank-note currency, can be utilised most beneficially in a slightly different way.

We should put this most valuable theory of the bankers to work at something more useful to mankind than making a bank-note currency of unvarying real intrinsic worth dear when the gold reserves of the nation involved are low and making it cheap when the gold reserves happen to be plentiful.

Just as the security back of a modern bank-note currency is the most real and sound it is possible for the mind of man to conceive, the purchasing power of this currency can be made the most stable and unvarying it is likewise possible for the mind of man to conceive.

In an obligation contracted to-day for liquidation twenty years hence, do we want the same amount of gold then as is involved now, or do we want the same amount of purchasing power then as is involved now?

Instead of shackling them to gold, and making our bank-notes having such unvarying stable worth back of them cheap when all useful commodities are dear, and dear when all useful commodities are cheap, the purchasing power of our bank-notes should remain constant, and should be regulated to correspond exactly in exchange value with the average value of all the useful commodities. To do

this, as will be well understood by many the world over, we would first select a list of basic raw materials and standardised commodities upon which we now consider we are dependent for our established necessities and modes of life, giving each commodity in the list a weight in accordance with its importance in commerce, and then regulate the supply of our bank-note currency so that the same amount in dollars or pounds sterling, as the case may be, would always purchase this list of commodities.

To briefly illustrate, suppose the following list represented the commodities to be used as a basis for the purchasing power of our credit currency, and the quantities given represented the weighting of their relative importance in commerce :—

> 200 lb. sugar, 2000 lb. flour, 250 lb. beef, 100 lb. pork, 25 lb. cod fish, 50 lb. salt, 50 lb. butter, 15 bushels potatoes, 250 lb. beans, 6 dozen oranges, 6 dozen bananas, one barrel apples, 50 gallons milk, 50 lb. wool, 150 lb. cotton, 25 lb. linen, 10 tons coal, one-half ton pig iron, 50 lb. copper, 25 lb. lead, 10 lb. aluminium, 500 common red bricks, 500 lb. cement, 100 lb. lime, 500 ft. lumber, 1000 lb. news print, 100 lb. rubber, etc., etc.

(As a matter of fact, several hundred standardised commodities would be used in actual practice, and each would be weighted in the approximate proportion to the quantity consumed by the nation.)

Next let us assume that at certain designated commercial centres all these commodities, to definite

specifications and in definite markets, were worth £100 in our present gold-standard currency when we started regulating our bank-note currency to this standard of value. Whenever this list of commodities under the conditions arranged in the beginning, could be purchased for £98 in bank-notes, it would be obvious that our bank-notes were not quite plentiful enough for the needs of commerce, and we would therefore cheapen them slightly by lowering the re-discount rate so as to make them a little more plentiful. On the other hand, if this list of commodities, under the conditions arranged, cost £102 in bank-notes, then it would be apparent that our bank-notes were a little too plentiful, and that we should contract the supply somewhat by increasing the re-discount rate.

In this way an internal bank-note currency can be maintained so as to have the same purchasing power for raw materials and standardised commodities a hundred years from now that it has to-day. Slight deviations in the commodities and the weighting used could be made occasionally if thought best by those in control, which might be desirable, on account of new inventions or changes in the living habits or practices of the people.

The procedure for a single nation to take in changing over its monetary system to a sound basis and its operation in international transactions, would be about as follows :—

1. Realise the great advantage of a currency having a constant purchasing power, not only in the

satisfaction of liquidating future commitments, but also in the very great assistance it would render for preserving equilibrium in its industry, as will be apparent later.

2. Realise the sterling worth of a bank-note currency and how the supply may be regulated as just described to give it the constant and stable purchasing powerin keeping with the constant and stable worth of the security pledged for such currency.

3. Realise that there need be no fear from a part of a nation's currency in circulation being "printing-press money" or currency issued against the previous value of the gold or silver deposits in the nation's Treasury, it being thoroughly understood, however, that as the supply of such currency could not be reduced by any manipulation of the re-discount rate, the amount of such currency in circulation must be well below any possible minimum demand for currency, which would reduce its purchasing power. If there were any possibility that the amount of such currency in circulation should ever prove so much as to reduce its purchasing power when all the bank-note currency is retired, then the nation's resources for raising revenue and floating bonds should be used for retiring whatever the indicated excess of such currency might amount to, so that the purchasing power of all the currency in circulation could be maintained stationary at all times. It should be further understood that any additional currency ever required by the nation in the future would be bank-note currency only, backed by sound negotiable notes and mortgages held or issued by commercial

banks, or upon the security of Government bonds, etc.

4. The nation should arrange a commodity price index to which it would regulate its supply of bank-note currency in the future, so as to preserve a constant purchasing power for all of its own currency within the nation. The purchasing power determined upon in the beginning should preferably correspond to the purchasing power of its present currency, when most of its internal indebtedness was incurred. Any deviation from this should, in the best interests of all concerned, favour the borrower rather than the lender.

In operation, such a nation would not allow the amount of its gold reserve to affect its re-discount rate for its bank-note currency in the slightest. The exchange rate for the bank-note currency with gold would be an entirely separate adjustment. The re-discount rate would be steadfastly used only for preserving the constant purchasing power of its internal currency within its own confines. Incidentally, such a currency would soon command high respect by international bankers and others.

5. If the nation were a debtor nation, it would determine upon the approximate rate for liquidating its debts. It would then make as intelligent a guess as possible at the exchange rate it should allow for its currency in exchange for gold, the international currency, in order to bring about the balances in trade in its favour necessary for bringing to it the gold required for the foreign debt payments it wished to make. In order to make a payment on its foreign

debt, the nation would have to arrange, by taxation or other internal financing, for sufficient of its own bank-note currency to equal in exchange value the gold payment it wished to make. The nation would, in effect, pay out the currency so obtained to its exporters in exchange for the gold which they received for the excess of exports over imports.

If the nation's gold reserves should increase faster than necessary for the debt payments planned for, the nation would raise the exchange rate of its currency for gold, and thus reduce the ease with which its goods would move into foreign nations, and thereby reduce the amount of bank-note currency it would be compelled to raise by internal financing.

On the other hand, if the gold reserves should not build up fast enough for its debt payments, then it would lower the exchange rate of its currency for gold, and thus permit its goods to move more freely into foreign nations.

Naturally a debtor nation operating under the sound currency system proposed would keep its gold reserves very low.

6. If the nation were neither debtor nor creditor, then, as there would be no benefit to itself in the long run from allowing its gold reserves to increase or decrease, the nation would therefore plan to maintain the exchange rate of its currency for gold so that the value of its exports would balance, as closely as practicable, the value of its imports.

7. If the nation were a creditor nation, and desired to have its imports exceed its exports in value, so as to permit the liquidation of the accounts owing it, it

would plan to set the exchange rate it would allow for its currency in exchange for gold at a rate that would make the excess value of imports over exports equal as closely as possible the desired yearly amount by which it wished the accounts owed it to be liquidated.

Under operation for this condition, the creditor nation would be required to pay out gold from its Treasury in exchange for its own currency to the amount of its debit balance in trade. The same amount of gold, however, would be paid it by the nation or nations owing it the international debt, and thus the creditor nation's gold reserves would remain approximately constant.

The nation's own currency, for which it exchanged its gold to the amount of its debit trade balance, could be used for meeting its internal expenses, thus reducing the tax burden on its people. Such a policy would tend towards higher living standards, or more leisure for its people, as will be apparent in Chapter VII.

It will be noted that under the operation of the monetary system just briefly described, a nation would always have the means at hand for keeping its foreign trade in the balance it desired.

Also, it will be noted, a debtor nation would have the means at its hand for making whatever debt payments it desired to make, and also it would never have any object in or need for borrowing gold regardless of how low its gold reserves might become. A debtor nation would find an advantage in allowing its gold reserves to practically vanish, as suggested previously.

At first sight the advantage to a debtor nation, or to a nation short of gold, in changing over to the sound currency system proposed, may seem more apparent than the advantage to a creditor nation. However, the advantages to a creditor nation in its internal commerce when operating under a system which would enable it to preserve constant purchasing power for its bank-note currency will become more apparent in what follows.

It will be observed that the suggestion has only been made so far that one nation could change its monetary system over to the sound basis proposed, and retain control over its balance in international trade. How more of or all the nations could do this will also be apparent later

(In the reference to the U.S. currency system no mention was made of the national bank currency in circulation. In adopting a currency of constant purchasing power, it would be necessary to limit the national bank currency so that it, together with the outstanding currency issued against the former values of gold and silver deposits, would not be sufficient to hamper the maintenance of the constant purchasing power of all currency in circulation through the regulation of the re-discount rate for Federal Reserve notes.)

CHAPTER IV

ADVANTAGE TO INDUSTRY FROM USE OF CURRENCY OF CONSTANT PURCHASING POWER

With Golden Rule Settlement of Trade Balances all would Prosper

WITH sound currency of constant purchasing power always available to meet the sound demand, and with the means for keeping its international commerce in the desired balance, the industry of a nation would take on a new aspect. The incentive for such nation would be to excel in the production of those things for which it is particularly adapted, and to use those things from other nations which they are particularly adapted to produce. The manufacturers of such a nation, on the whole, could enjoy the maximum prosperity only when the purchasing power throughout their nation is the highest possible, which is as it should be.

While we use a currency having a fixed parity with gold for all purposes, there is always a tendency to exploit labour in the home country, so that its products will compete more readily in foreign markets.

Organised industrially as we are in the U.S. for instance, there has been a strong tendency in recent years for labour in the long run to get its share of the

benefit from improved efficiency in production, as it has been thoroughly demonstrated that capital cannot prosper without prosperity for the workers. With our unscientifically regulated currency, the benefit to labour from improved efficiency in production has been reflected sometimes in lower commodity prices and sometimes in higher wages in dollars, and again, in both. With a currency regulated to a constant purchasing power in terms of commodities, improved efficiency or lower cost of production would be reflected only in higher wages for labour and greater returns for capital.

Organised as we are, unemployment of labour in a nation is due solely to a lack of spending in the nation. Spending power depends upon the earning power of current labour and the earning power of stored labour—capital. The spending powers of both are very necessary for prosperity in a modern nation.

The maximum earning power of capital no longer closely follows the law of supply and demand, as it did when hard currency only was used; but depends, in the long run, much upon the interest rate of money, which in modern nations is controlled by the agency which has discretion over the re-discount rate.

When we adopted measures for restricting immigration, we thwarted to a certain extent the law of supply and demand in the world labour market so far as the wages for labour are concerned.

The adjustment of the wages of current labour and the adjustment of the wages of stored labour are very much in the hands of man.

As suggested previously, unemployment is due to the lack of spending power of labour and capital, and the maximum possible spending power of either requires the highest wages possible for labour without destroying equilibrium in industry.

With Sound Currency, Maximum of Prosperity Easy to Maintain

With a sound currency system and approximate equilibrium in international trade, the steadfast regulation of the interest rate for bank-note currency, so as to keep commodity prices stationary, first, last and all the time, will automatically exert a most powerful influence to preserve equilibrium in industry and keep labour and capital fully employed. With the exercise of sufficient intelligence there would not be much occasion to change wages, except to increase wages for labour from time to time as efficiency in production progressed.

The greatest prosperity in general would always result from closely paying labour for all that it produces. This would stimulate labour to keep its productive power at the highest possible, bringing about the fullest co-operation between labour and management for the highest efficiency possible in production. Both would seek to keep the labour per unit of output in production as low as possible. As efficiency in production increased, wages would be increased, with real increase in purchasing power.

The two opposite extreme swings from equilibrium in industry may be considered. If stocks of commodities tended to increase with a lowering tendency in commodity prices, this might be corrected by reducing the re-discount rate, which would tend to keep commodity prices up in terms of the bank-note currency. Such a correction might be sufficient to bring about equilibrium. However, if, on account of a lower cost of production, commodity prices tended to sag with material increases in surplus capital, and unemployment appeared, it would be obvious that the sound thing to do would be to raise wages, thus raising the spending power of the workers. This would bring about a demand for more goods and manufacturing facilities, etc., giving more employment to labour and capital.

With a sound currency system, the condition of surplus labour and surplus capital seeking employment would not give much trouble in practice. The remedy of increasing wages would be so obvious and very pleasant to administer.

The opposite tendency would require close watching; but with the exercise of a little intelligence it should be easily controlled also.

For the condition of a shortage of labour and commodities there would be a tendency towards increases in wages and rising commodity prices. The latter would have to be offset by raising the re-discount rate for bank notes, and this would make capital more expensive to industry, reducing the chances for profit. This condition could not proceed very far before capital would cease flowing so freely

into industry. Such a condition would quickly bring about a slowing down of industry if it were not promptly rectified.

Capital simply will not work if profits are doubtful. When the prospects for profits from industry seem in the least uncertain, a powerful brake is put on all spending.

The condition of small surpluses in labour, capital and commodities in a nation has proved safer in the past than a shortage of labour and commodities under our present available facilities for regulating the cost of money and the wages of labour.

Almost always in the past an acute shortage of commodities and labour has been followed by a surplus, caused by a trade breakdown. Time and much trouble for all concerned have then been required before wages could be lowered and prospects become sufficiently favourable for profits to inspire capital to return into industry.

Summarising, with equilibrium in international trade, and with sound money of constant purchasing power in use, any swing from equilibrium in the industry of a nation would always be evident either by a surplus of commodities, labour and capital, or by a shortage of commodities, labour and capital. For the condition of surpluses, the remedy would be to raise wages, and for the condition of under-supply the remedy would be to lower wages.

The two prime essentials for the maximum continuous prosperity in a highly industrialised nation are an ample supply of currency of unvarying purchasing power for all sound needs at all times, and

the ability to closely adjust the wages of the workers to what they produce at all times.

If these essentials are to be attained, the responsibility of the Federal Government to industry cannot end with its supplying of the sound currency. There are requirements for the smooth functioning of industry which the Federal Government *alone* can provide with justice to all concerned.

Under present conditions the smooth functioning of industry throughout a nation is a responsibility which must be assumed by the Federal Government.

Some suggestions for devices along this line are mentioned in the next chapter.

Present System Most Unscientific and Disturbing

The ideals in industry are absolutely impossible of a semblance of continuous attainment while we have our present fallacious settlement of international trade balances, where, with Free Trade as we know it to-day, the labour of one nation is in competition with the labour of all the other nations, which results in the labour of a highly industrialised nation being exploited by forcing such labour to follow the law of supply and demand, and in the building up of vast private fortunes in capital which, if it is to be employed, must find outlets in other countries, or be used in pursuits of little benefit to the labour which largely produced it.

The ideals in industry are also equally impossible of attainment by our present most unscientific control of bank-note currency having the soundest

possible security back of it, where such haphazard adjustments are attempted with it as to make water flow uphill by making gold flow from a creditor nation to a debtor nation. With our present monetary system one very desirable result cannot be brought about without having many results in other directions, the after-effects of the cure often being worse than the original disease. Such liberties taken with our currency obscure fundamental conditions and are demoralising and a serious handicap to the maintenance of stable prices with the proper balance between capital costs, labour costs, and profits in the selling prices of commodities.

As suggested, we make an adjustment to correct an unsound situation in international commerce, and it may have a very upsetting effect upon internal commerce, and vice versa. With such a makeshift monetary system we shall continue to tumble into periods of adversity, and then slowly muddle out, if we have luck, with serious unemployment and suffering.

As will be apparent later, a great deal of luck will be required if we are to muddle out of our present predicament and attain any degree of prosperity without some important changes in our present system of handling international debts and international trade balances.

No nation can hope to attain sufficient intelligence and unselfishness among its people to even approach continuous equilibrium for its internal commerce, to say nothing of preserving its equilibrium in international commerce, while it uses our present fallacious

monetary system. With such fallacy in our system, anything like the ideal in industry is impossible of attainment.

We require a monetary system in keeping with the mechanical niceties of our age. We require a monetary mechanism permitting two adjustments, each quite independent of the other: one, the international exchange rate for maintaining equilibrium in international commerce, and the other the re-discount rate essential for maintaining equilibrium in internal commerce. When we get these, with other needed improvements, more specifically pointed out in the next chapter, the enjoyment of the fruits of industry by the producers of a nation will only be limited by the inventive genius of man and the desires of the people of such nation.

CHAPTER V

PRIVATE CAPITALISM WILL ENDURE

WHILE we are created free and equal under the laws of most nations, we are not born with equal adaptabilities to the various walks in life. Some of us are born blessed with excellence in brawn, while others excel in brains. Some of us are born followers, while others are born leaders. Some of us are born spenders, while others are born hoarders. Some are only happy when striving to excel, while others are happy to plod in mediocrity. Brains could not avail much without brawn, and brawn could not avail much without brains. Followers require leaders, and leaders require followers if success is to be achieved. Spenders could not spend much without hoarders, and hoarders could not hoard much without spenders.

All the various classifications are essential to the success of a nation, and each classification is dependent for success upon its opposite as well as upon all the other classifications.

Every nation, however, should make it entirely unnecessary and very difficult for any classification in society to long exist which departs from the injunction "In the sweat of thy face shalt thou eat bread."

Machinery and power are setting the toiler free and raising his living standards, and mass production has come to stay, and will be applied more and more throughout the world as time passes. Happy is he who finds the work he enjoys and such a one is a success in life, regardless of what his work may be.

On account of the wide diversity in our tastes and in our adaptabilities, we want freedom in the selection of our vocation and manner of life. Each desires freedom in working out his own destiny.

It is on account of our inborn desire for this freedom that our form of so-called individual capitalism, with improvements from time to time in the rules governing it, is bound to endure.

The system of private capitalism, with the law of supply and demand and the survival of the fittest working freely, but orderly, up to the best interests of all concerned, will advance us more quickly and more efficiently with safety into higher living standards than any other system so far devised, or likely to be devised.

With sound currency and the *Golden Rule* in international trade settlements, labour's purchasing power would be limited only by its producing power. Labour's producing power is dependent upon a combination of labour's co-operation, capital supply, inventive ability and management. The supply of capital is influenced now largely by the authority which fixes the interest rate of bank-note currency, and not so much by the law of supply and demand as formerly. In order for labour to reach its maximum purchasing power, therefore, there must be a reward

for inventive ability and management that will stimulate its best efforts at all times. This the system of individual capitalism is very naturally fitted to do, and is one reason for its success. Capital, in its selection of a manager, is guided solely by his ability to manage, whereas if labour attempts the selection of a manager, other considerations are likely to enter in. With capital selecting a manager, the responsibility of selection is concentrated on the shoulders of a few, who are likely by experience to be more business-like, and better judges of good managers; while with labour selecting the manager, the responsibility would be scattered among a host, many of whom are not interested in or qualified for such responsibility. In America those who select and those who manage most successfully often rise from the ranks of labour.

As has been pointed out, the wages of current labour and the wages of stored labour no longer rigidly follow the law of supply and demand, but are coming more and more to be intelligently adjusted to the best interests of both, which means the best interests of all concerned.

The ideals of industry are becoming synonymous with the ideals of civilisation. The one great aim and purpose of each nation should be the widest possible enjoyment of the fruits of industry by each man, woman and child within its confines. This should be the great slogan of all civilised nations, and should be emblazoned in the minds of all thinking people.

Conditions have changed greatly in the U.S. since its constitution was written and since many of its

present laws were passed. Those who have the responsibility for the laws which are in effect in a nation should clearly recognise the great aim and purpose of a nation, and should be particularly zealous that the laws affecting industry are always operating to the best interests of all concerned.

As suggested previously, if we are to have higher living standards, the need for preserving our industrial equilibrium becomes most vitally important. Means must be provided for permitting our industries to function in close harmony with economic laws and forces, and without the jerks and breakdowns we now experience.

Wherever present laws hamper the fulfilment of the great aim and purpose of a nation, they should be modified or abolished. Wherever new laws can assist in the fulfilment of the great aim and purpose of the nation they should be enacted, by constitutional amendment if necessary in the case of the U.S.

Apart from the most pressing need for monetary reform which has been the main theme of this thesis, unfair competition and old age and disability benefits and equity in wage scales should receive attention.

The following applies particularly to the U.S., but would apply with almost equal force to most other nations.

(a) *Unfair Competition*

Unfair competition is bad for all concerned. It is manifestly unfair for one producer to dump all of his output into the market as soon as it is produced, or before it is produced, as often happens, compelling

the others to bear the burden of carrying the stocks necessary for stabilisation and of carrying on research for improving the quality, or research and advertising for widening the use, of a product. The producers of consequence of each raw product and standardised commodity should be compelled to organise sufficiently under some Governmental authority, possibly under the Inter-State Commerce Commission, somewhat as the railroads are under the Inter-State Commerce Commission, so that the producers only will bear the burden of their own over-production, and so that all will bear their equitable share of the cost of advertising, research, grading, standardising, and marketing of their product.

Unconsumed stocks should not, in any circumstances, be allowed to increase beyond a healthy limit. When such limits are approaching, *price reduction* and curtailment of production *would have to be effected,* the aim being, in the long run, to let price reduction prevent over-production, in accordance with the law of supply and demand.

In such co-operative organisations the voting power for the conduct of the organisation's price policy or any curtailment of output policy, should not be in proportion to the amount of product produced by the various members, but the voting power governing such matters should be in proportion to the profits made in the production of the product by the respective members in the previous year. This would leave all matters affecting the policy for price-fixing and curtailment of output in the hands of the

low cost producers, just as it is now in the long run. This would always tend to bring about the free but orderly operation of the law of the survival of the fittest, which is sound beyond any question.

It is possible for the best interests of all concerned that the low cost producers should have a greater voting power on price policy than that proposed. Possibly, when such organisations are arranged for, it should be with the understanding that only the producers of the lower cost half of the production would be allowed to vote on price and restriction in output policies.

Restriction in output, when advisable, would apply to all producers alike, and could be pro-rated on the basis of the production of the respective members during the previous year, or on the basis of capacity to produce in the case of new producers.

Products shipped in from other nations should be marketed through the organisation having jurisdiction over such products, and the foreign product should bear its equitable share of the cost of carrying the stocks for stabilisation and the operating cost of the organisation. In cases where curtailment in production is necessary, the importers of the products involved should be placed upon a quota based upon their previous sales, in the same way as domestic producers. With industry stabilised, the supply of most products would, as a rule, respond closely to the demand, but wheat and cotton, for instance, would always require close attention, on account of the varying part sunshine and rain play from year to year.

Most of the detail work, and all the expense,

required for such stabilisation should be borne by the organisations themselves, leaving as little as possible for the Federal Government to perform.

(b) *Need for Old Age and Disability Pensions*

If a man goes through life as an honest worker, he should not be faced with poverty in his old age simply because he has been a good provider for his family, or because he has been unfortunate with his savings. His spending has benefited all industry, and has enabled the hoarder to live his old age in comfort.

Each worker should be able to look forward to a pension in his later life, the amount of which is in proportion to the amount earned during the productive years of such a worker's life. Such pension should not be looked upon as a gratuity, but as something earned and something to be proud of. In the cost of producing every product there should be a tax in proportion to the value of the labour used in its production, which will provide equitably for disability and old age benefits for all workers, to be disbursed by the Federal Government. It would be manifestly unfair for the production in one part of a nation to bear such a tax without the production in all parts bearing the same tax. A nation having such provisions would be justified in restricting to some extent, by safeguarding duties, the products it is well adapted and equipped to produce coming to it from other nations where labour is unduly exploited.

(c) *Equity in Union Wage Scales and Wage Regulation*

While, as has been pointed out, the labour of any nation should be quite independent of the law of supply and demand so far as the world labour market is concerned, the best interests of all concerned require that the labour within a nation—that is, one craft with another, etc.—should be responsive to the law of supply and demand.

In general, it would be manifestly wrong, and very unsound, to allow any particular industry to erect barriers against the freedom of capital to enter that industry. There must be equilibrium in the inducements of the various industries to capital seeking investment.

In a similar way, it would be detrimental to the best interests of all concerned if a labour union, by aggressive and unfair tactics, restricted the number of workers in its craft, so that the workers of its craft would receive higher wages than their output, time employed, hazards involved, skill and intelligence required, etc., would justify, compared with other crafts. Just as there is freedom for capital to enter any industry, so should there be similar freedom for labour to enter any craft.

With stabilised prosperity, members of some of the crafts which have been in the habit of getting high wages for part-time employment would be more continuously employed, and under such conditions equity would require that the wages in such crafts be lowered.

When one class of workers is unfair, it reduces the benefit to all the other workers in the use of the products of the unfair workers, and often reduces the demand for the products of other workers in allied crafts as well. All labour unions should concern themselves in any unfair demands made by another union and should be zealous in seeing that the wages of the various crafts are equitable one with another.

As suggested above, paying labour more than it produces can only lead to trouble for all concerned later on if continued. The maximum of prosperity in a nation will be gained only when all labour in the nation is employed and being paid closely to what it produces.

With a sound currency system and by the use of intelligence in regulating the wages of labour, both labour and capital can be kept fully employed. If intelligence were used in the regulation of the interest rate of money and the wages of labour, there would be no occasion for labour or capital to seek employment in foreign countries.*

When all the labour and all the capital of a nation are being comfortably employed, and commodity prices are remaining at a stationary level, labour can be assured that it is being paid very closely for all that it is producing.

* We would have an exception to this in the case of a nation that is specially favoured by having resources which particularly fit it to supply certain commodities to foreign nations much cheaper than they can produce them. The principles involved in such an event are discussed in Chapter VIII.

As stated previously, the steadfast regulation of the re-discount rate for bank-note currency to preserve stationary commodity price levels will be a very powerful influence in maintaining equilibrium in industry and the full employment of all available labour and all available capital. However, as has also been previously suggested, it will be vitally essential for continuous prosperity to be able to expeditiously make occasional changes in the wages for current labour. Such changes should be increases in wages due to the lowering of the cost of production. However, it is always possible to make mistakes, and it might become very essential to prosperity to lower wages, in order to reduce the interest charges on production without disturbing commodity price levels.

In the U.S. we have all become accustomed to having the interest rate of bank-note currency arbitrarily changed from time to time, for what is thought will be in the best interests of all, by a responsible governmental authority. On account of the unsound way in which gold is tied to our currency, the Federal Reserve Board has had great difficulty in pursuing a logical policy.

If we were freed from the very harmful influence of gold, and the way was cleared for the operation of a scientifically regulated currency, the proper course for the Federal Reserve Board to follow would be a thousand times easier to determine than it is to-day.

We have not, even under our present handicapping and unsound conditions, questioned the policy of

allowing the Federal Reserve Board to arbitrarily fix the interest rate for bank-note currency, and thereby in the long run influence the real wages paid to labour and capital.

As it would be essential for continuous prosperity, as has been pointed out, to make occasional changes in the wages of labour, as well as to regulate the re-discount interest rate for currency, we should also become accustomed to allowing the governmental authority which regulates the interest rate for currency to have similar control over the wages for current labour. By such power this governmental authority would then have the essential means at its command for maintaining full employment for all current labour and for all stored labour.

For facilitating smooth operation under this desirable condition it would be extremely helpful if the various labour and trades unions, under possibly the jurisdiction of the Department of Labour, worked out between themselves standardised basic wage scales for the various crafts in the various districts of the nation, equitable for each craft with all the other crafts, as far as possible. It would not be necessary that the wage scales so worked out should represent labour's exact share in the selling price of goods. This would be quickly brought about in operation under a sound currency system. With such assistance and co-operation by labour, the functioning of the authority having jurisdiction over interest rate for credit currency and wages for current labour would be greatly simplified and such authority could order a small percentage increase or decrease in wages

as conditions required, and it would be applied equitably throughout the nation.

To be able to readily make such adjustments from time to time would be particularly helpful during the first few years' operation under a scientifically controlled currency system, as there would be a natural pressure for the highest wages possible for labour from capital, as well as from labour, and there would be danger of mistakes being made in this direction which could only be soundly corrected in the best interests of all by again lowering wages promptly when it was clear that such a mistake had been made.

It would be a great advantage to have a well balanced industrial commission make recommendations, after thorough investigation, for any changes respecting wages, hours of work, etc. for the different crafts, and if we became accustomed to having such recommendations put into effect equitably and orderly throughout the nation.

(d) *Future Payment Sales not Sound*

Future payment sales for luxuries should be discouraged as far as possible, as such sales can only be a temporary expedient for increasing production, and are unsound, because in the long-run such sales reduce the purchasing power of the buyers by compelling the buyers to pay high interest charges in addition to liquidating the capital account. To borrow part of the capital for providing more or better productive facilities is a different matter. No

harm is done by borrowing the accumulated savings of capital for financing productive enterprises in a nation. The earning power of such borrowed capital in such enterprises pays the capital charges on the borrowed capital. Financing productive enterprises too largely on borrowed capital and resorting to future payment sales tend to put an interest burden on production as a whole in a nation in addition to the normal capital charges, and will, if such practice is carried far, reduce the net purchasing power generated by production.

When there is an under-supply of saved capital, as there would always be in normal prosperity, the capital that is available for borrowing is very beneficial in financing new developments, inventions, etc., which are expected to earn more than ordinary capital charges.

CHAPTER VI

GOLDEN RULE SETTLEMENT OF INTERNATIONAL TRADE BALANCES WITHOUT GOLD

IT will be realised that the plan for regulating bank-note currency to a constant purchasing power within a nation is feasible for any or all of the nations to start following at once or at any other time.

It will be further realised, however, that the adoption of the plan proposed for a nation to maintain its balance in international trade by its own regulation of the exchange rate of its bank-note currency for gold would be limited to only a few nations.

As will be apparent, a nation regulating the supply of its bank-note currency to a constant purchasing power, and by a separate adjustment regulating the exchange rate of its currency for gold, would have no occasion to purchase gold other than that which would come to it from its exporters for the excess of exports over imports.

As soon as a few nations commenced to derive the benefits to their internal commerce from the use of a currency of unvarying purchasing power, and to derive the benefits from their ability to regulate the exchange rates of their respective currencies for gold so as to get the desired balance between exports and imports, such nations would not be interested in increasing their gold reserves and

the value of gold would commence to fall. This would not perturb the nations having the sound currency, however, as such currency would have the respect of international bankers. As other nations commenced to see the light, there might be a scramble by those having the facilities to adopt bank-note currencies of constant purchasing power. This would further disturb the value of gold, and the exchange rate of all such currencies would then be in the hands of the international bankers.

International Clearing-House Machinery for Fair Play Trade Settlements very Simple

While allowing the exchange rates of the various currencies to be determined by the international bankers would prove very much more satisfactory on the whole than settling trade balances by the present usurious gold practice, it is believed that there would be a decided advantage in allowing the exchange rates to be regulated by an International Clearing-House Committee.

Let us assume that those nations (the more the better for all concerned) having sound currency—currency having a stationary average purchasing power in a wide variety of commodities in the respective nations—and having confidence in each other's ability to maintain their internal currency on the same sound standard of value, form an International Clearing House, having branches in each member nation, each member nation being represented in an International Clearing-House Committee.

Clearing House would Hold no Currency

The seller of one nation would exchange his goods for the currency of the buyer of another nation. The seller, in effect, would take the currency of the buyer's nation to the International Clearing House. The Clearing House would give the seller a Clearing-House order on the Treasury of the seller's nation for currency having the same purchasing power in international commerce as the buyer's currency delivered to the Clearing House by the seller. The Clearing House would make a note of the transaction, and *return the currency* of the buyer's nation *to the treasury of the buyer's nation*, and thus commodities would move freely from one nation to another.

By this system the buyer of foreign goods would get the goods, and the Treasury of the buyer's nation would get the money the buyer paid for the foreign goods. In effect, a nation's Treasury would pay its exporters for the goods exported, and its importers would pay the nation's Treasury for the goods imported. The exporting and importing transactions would offset each other.

In this way no currency would move into or out of the nations involved. With equilibrium in international trade, practically the same effect is brought about now through the agency of international bankers and their Clearing associations.

Compared with the system now in use, international traders would note no practical difference in the operation of international exchange except greater simplicity.

In the operation of the International Clearing-House system *no currency would remain in the Clearing House,* and no nation's currency would circulate outside its own borders.

Whenever a nation's international sales exceeded its international purchases, it would be obliged to arrange, by internal financing, for the currency demanded of it by the International Clearing House for paying its exporters for the excess of exports over imports.

Under England's present fiscal system, the Clearing House demands for currency with which to pay England's exporters would probably be made upon the Bank of England, and the Clearing House would send all currency paid out by England's importers back to the Bank of England, to be credited to England's Clearing-House account. Whenever England's exports exceeded her imports, the Bank of England would advance the money for paying England's exporters, and charge England's Treasury with the interest for such advances.

In the U.S. such transactions would be handled direct with the U.S. Treasury or its connection with the Federal Reserve Banks. In the U.S. the Federal Reserve Banks take the place of the Bank of England in the function of issuing bank-note currency, and the Federal Reserve Board is responsible for fixing the re-discount rate, as was mentioned previously.

The Federal Reserve Board is a non-partisan board, and is looked upon by the people of the U.S. as a group of the best conservative banking brains in America, and, in spite of its unsatisfactory

performance under the fallacious gold standard, the Board is highly respected.

For the plan for continuous prosperity outlined under "Equity in Wage Scales" in the previous chapter, additional duties were proposed for the agency supervising the re-discount rate. On this basis, it is believed, more confidence would be felt at first, at least if this function were performed by a non-partisan board responsible in the long run to the will of all the people, instead of by a private agency such as the Bank of England. It is the author's belief that the determining of the re-discount rate and the issuing of currency is also a function that should be exercised only by the government.

Variation in Purchasing Power of Respective Nation's Currency no Hindrance

There might be some advantage in most of the nations involved having the same index of purchasing power for their respective currencies for internal commerce; but this would not be essential. A nation could have an index most suitable to the habits of its people if it preferred, and a nation's currency could be out of harmony with its own index, from time to time or continuously, without disturbing international trade, so long as the changes were not too abrupt. The liquidation of future international commitments could be based upon the International Clearing-House exchange value at the time such commitments were made, or in terms of the currency of one of the nations involved, as the interested parties preferred.

As a matter of fact, errors would be made in the first fixing of the exchange rates for the respective nations' currencies in international trade. Such errors would cause goods to move too freely from some nations and not freely enough from others, tending to create important credit and debit balances in the International Clearing-House accounts. This the Clearing-House Committee would correct by adjusting the exchange rates of the respective nations' currencies, so as to keep the international trade balances always reduced to as small amounts as practicable without hindering international trade.

Undoubtedly the necessary corrections to bring about equilisation would amount to quite important changes in the exchange rates from the first estimate, which would tend to become more or less permanent. The currency of the nation having the highest efficiency in production—which incidentally would have the highest living standards—would tend to be at the greatest premium, other conditions being equal.

The "International" the Standard of Exchange Value

In practice, the various currencies would be rated in "Internationals"—that is, so many dollars would be required to purchase the various commodities and weights comprising an international hypothetical index of value set up by the International Clearing-House Committee, which would constitute one "International" and likewise pounds, francs, marks, lira, etc., would be rated in the same way. Such ratings with the "international" would facilitate

quick calculation of the exchange rate of one nation's currency with another.

Over-selling Nation would bear Burden of Financing its Credit Balance

The Clearing-House operation would keep the nations involved constantly informed as to the amount of the debit or credit in their international trade. At the end of the year it would be found from the Clearing-House records that certain nations were creditor nations and others were debtor nations. The creditor nations would be bearing the burden of financing the over-selling of their own exporters, just as they should, because grave injustice is done to the debtor nation otherwise, as we have seen. If the credit to the creditor nation were to be liquidated in the following year, then the people of the creditor nation would have to buy more goods from foreign nations than its sellers would sell in foreign nations in the following year.

Clearing-House Committee would Adjust Exchange Rates to Reduce Balances

If the exporters of a creditor nation continued to sell more into foreign markets than its importers bought, then the Clearing-House demands on the creditor nation for paying the creditor nation's exporters would be discounted, and this burden the seller of the creditor nation would naturally pass directly to the consumers of the debtor nations, reducing the debtor nations' purchasing power for

creditor nation's goods, and tending to stimulate more production of goods by the debtor nation. In the creditor nation this would act to give greater purchasing power to its currency for foreign goods, the whole effect being to automatically correct an unsound condition and bring about equilibrium.

There would be no quarrel by the respective creditor and debtor nations with the Clearing-House Committee regarding the exchange discounts or premiums required to keep their respective Clearing-House accounts balanced. The creditor nation would not care to be left carrying the financial burden for a great amount of over-selling by its exporters. The debtor nation would not be very happy holding its currency in its Clearing-House account which represented the amount of the over-buying of its people, and which was spent for goods giving no employment to its labour and giving no employment to its production facilities.

It is believed that the interests of the nations involved would be so entirely mutual that there could never be much occasion for friction in the Clearing-House Committee. It is further believed, however, that no harm would result if a nation refused to abide by the judgment of the Clearing-House Committee in the fixing of the discount or premium for its currency in international trade transactions. No harm would result if such a nation decided to pay its exporters more or less than the Clearing-House demands made upon it for the sales made in foreign countries, so long as such a nation's policy did not change too often, which of course would be disturbing to the exchange of goods between nations.

It has been suggested to the author that the International Clearing-House Committee would not be necessary and that the function proposed for it could be left entirely to international bankers. It is believed, however, that there would be decided advantages to all concerned in having all clearings pass through one organisation, which could be kept fully advised of all clearing transactions, and which could promptly take note of any changing tendencies in the flow of international trade. Furthermore, if the clearing operations were left in private hands, quite important surpluses of a nation's currency would tend to accumulate, and probably circulate outside the nation's confines, and this could serve no purpose useful to such nation. Furthermore, the exchange rates fixed by an international committee having full information at all times, would tend to be more stable than individual bankers, each acting on his own, could make them, and would be bound to prove more equitable to all concerned, and would reduce the exchange hindrances to the sound, free flow of international trade to a minimum. Incidentally, this International Clearing-House Committee, which need not bind any nation in any way, and possibly an international Chamber of Commerce organisation would probably be all the "League of Nations" and "Customs Unions" the world would ever require.

No Nation can Sell more than it Buys

As stated previously, compared with the system now in use, international traders would note no

practical difference so far as the machinery for international exchange is concerned, except greater simplicity when they became familiar with it. They would note, however, that the greater the swing from equilibrium in international trade, the greater would be the pressure of the corrective forces. Those desiring to export would notice that the ease with which their goods moved into foreign markets would depend upon the ease with which foreign goods came to their own markets.

It is true that by the *Golden Rule* system in settling international trade balances no nation could put more goods into the world's markets than it took out. This is equally true now in the long run, except for the very slight effect of the gold which is produced currently; but now when equilibrium is disturbed everything connected with international trade tends to throw us farther from equilibrium, and if protective duties and embargoes on gold exportation are not resorted to, we have a stampede pushing all the gold in one corner, and then a world trade breakdown.

Foreign investments have an effect upon trade balances which would be the same with the gold system, or the proposed system.

As is apparent in Chapter IV, importantly increasing surpluses of capital seeking investment in foreign fields would normally be a reflection upon the intelligence of the people of any nation having a sound currency system.

Further details in regard to international accounting under the Clearing-House plan are disclosed in the next chapter, under "Accounting in Liquidation of War Debts."

CHAPTER VII

PRESENT WORLD PROBLEMS AND THEIR SOLUTIONS

LET us now consider the problems of some of the nations involved in the present unprecedented world trade breakdown. The present world depression is unprecedented in two important aspects, which may be mentioned :

(*a*) We have never before had such an unsound international debt situation. This situation is unsound under our present fallacious gold standard monetary system, for the reason that there is a very undesirable, but nevertheless unrelenting, pressure, which causes gold to flow from a debtor nation to a creditor nation, and we already have an excess of gold in the creditor nations and a shortage in the debtor nations.

(*b*) The leading nations are more industrialised than ever before. Facilities are now provided in various lines of production which require less labour per unit of output than ever before, and prosperity can rule only when all are employed and have purchasing power for each other's products.

Undoubtedly the present unprecedented depression will go down in history as the gold fallacy depression.

We will first consider one or two of the particular problems of England and Germany, and then dwell more at length on the problems of the U.S. Many of the U.S. problems discussed prevail in the other nations as well, and the solutions proposed would apply with quite the same force as in the U.S.

England's Dilemma

The utter helplessness of any nation with a currency tied fixedly to gold, the international unconsumable commodity currency, to make an adjustment for bringing about equilibrium in international commerce without very serious consequences to the equilibrium in internal commerce, and vice versa, is strikingly illustrated by England's dilemma.

(*a*) With taxes and unemployment of labour on the increase, and with imports exceeding exports, and with liquid capital seeking more favourable conditions in foreign nations, there is much talk now to the effect that the wages and salaries of everyone in England should at once be reduced so that the products of England's industries will move more freely into foreign markets. Such reductions, if sufficient to materially increase England's export trade, would materially reduce England's purchasing power for her own goods, and would not inspire the employment of capital in pursuits dependent upon the purchasing power of England's workers, for profits.

(*b*) The well-informed in England realise that cheaper money should be available for England's

industries, but on account of the precarious position of the Bank of England's gold reserves, the Bank deems it advisable to increase its rate at the time this is written (early August 1931).

What England needs is higher wages for her workers in terms of purchasing power for her own goods and less purchasing power for foreign goods, which, with a proper supply of sound money, would put her unemployed labour and her unemployed capital to work again. This would be very simply brought about if England had a scientifically regulated currency, with the proposed International Clearing-House system in operation. Under such operation, England's currency for the condition of imports exceeding exports would be placed at a discount compared with the currencies of those nations which export more than they import. Such action would reduce England's purchasing power for foreign goods, and would increase the purchasing power of foreign nations for England's goods. In this way equilibrium in England's international commerce would soon be brought about, and then, with equilibrium in internal commerce, unemployment of labour and capital would soon cease, and, compared with present conditions, England would soon be enjoying great prosperity.

In the U.S. we have had a glimpse of what it means to get a combination of the essentials for prosperity when a bank-note currency is tied to the gold standard—namely, a proper balance in the wages paid to labour and the wages paid to capital and a supply of gold purchasing power in the important consuming nations. This combination

was largely a matter of accident, and not due to a superior knowledge of economics and monetary matters in the U.S.

The ability to adjust the interest rate of money and the wages for labour in a nation, quite independent of the law of supply and demand in the world's markets for money and labour, is most essential in maintaining continuous prosperity for the nation under present-day industrial development. The idea of using a bank-note currency backed by such absolutely sound and stable security, enabling a nation to become independent of the law of supply and demand, so far as gold is concerned, up to a safe limit in current value of all capital and labour previously expended in a nation, is an invention of untold benefit to mankind. A very serious blunder restricting its benefits, however, is made by tying our bank-note currency, capable of such beneficial possibilities, to gold, a commodity the value of which varies widely.

This tying of a bank-note currency to gold thwarts our greatly-to-be-desired independence in adjusting the interest rate of money and the wages of labour for maintaining the maximum prosperity in a nation.

The tying of gold—an international commodity currency—to a bank-note currency exercises a powerful influence in tending to equalise living standards as well as commodity prices in the nations using it. Likewise it tends to equalise prosperity in the nations using it. The use of gold—the international commodity currency—is now exercising its potency for equalising the misery of unemployment throughout the nations using it.

In our present unsound international debt situation and under our other unfavourable conditions, to again bring about prosperity and full employment in the leading nations would be almost miraculous, to say the least, while we cling to a monetary system so unsuited to present-day conditions.

England has struggled with unemployment which saps vitality, for some years now, and is powerless to improve her situation while sticking to her unsound monetary system. Instead, unemployment and taxes have been gradually increasing. Other nations are suffering from the same helplessness for the same reason.

England must give less attention to the manufacture of those products which she has been exporting to other nations, and which the other nations prefer to manufacture for themselves, and give more attention to the production of those things coming to her from other nations, which she is as well suited to produce for herself.

To a large extent England must be satisfied to let her export trade balance her requirements in raw materials and the foods she is unable to produce for herself. The gross value of the latter is small compared with the gross value of the finished products her people would like to use and consume for themselves, and could, if they were all efficiently employed.

No nation can produce anything like all the raw materials required for fulfilling the desires of its people.

The truth is, England is on the toboggan, and has been going steadily downhill for some years. The

present world depression is only accentuating the symptoms that were plainly evident prior to 1930.

A gross basic mistake was made in England in the measures taken after the war, which finally culminated in the restoration of her bank-note currency to its pre-war parity with gold in 1925. Every move made to bolster up this parity is but another knot in the rope which is tying up England's industry. This move to the pre-war parity added nothing to the purchasing power of England's currency for goods made in England, but it greatly enhanced its purchasing power for goods produced abroad, with the result that much of England's purchasing power was, and is, utilised without giving employment to her own workers and her own production facilities. This return to the pre-war parity also raised the cost of production in terms of gold, and thus effected a serious handicap to England's export trade, and, further, it increased the attractiveness to English investors of investments in foreign enterprises, and rendered the development and expansion of home enterprises less attractive.

The benefactors in England from this return to the pre-war gold parity have been the purchasers of foreign goods and investments. Their gains have been offset many fold by the loss in earnings of England's workers and production facilities.

Our fetish and false pride in the sanctity of the pound sterling bank-note and the American dollar Reserve bank-note in their unvarying exchange rates for the perfidious gold, is strangling industry, and, if persisted in, will be civilisation's undoing.

It is quite possible that the Bank of England can continue to tinker with the re-discount rate and arrange gold credits and keep itself within the legal gold reserves for a time; but the outstanding fiduciary bank-note issue is close to the present legal limit for the bank's gold reserves, and this manœuvring for gold credits abroad is a very bad sign, and to set much faith in such measures is resorting to an optimism that has no justification in past history or in sound economics. All such manœuvres continue to preserve the superior purchasing power of England's currency for foreign goods and foreign investments, bringing about more unemployment, higher taxes and more expensive money for England's industries.

Unless a change is made in England's present monetary and fiscal practices, a crisis sooner or later is inevitable.

Making bank-notes which have security of such intrinsic worth behind them interchangeable with gold at a fixed parity, and thereby necessitating the limitation of the note issue by the safe amount of gold available for such exchange, may appear satisfactory in normal times, but a worse combination for averting a panic when there is a gold shortage it is difficult to imagine.

With a currency system so inelastic, it is not difficult to imagine what would happen if bank depositors became a little worried about the ability of the banks to deliver currency under existing conditions, and started withdrawing their deposits for the purpose of hoarding.

Basically, England is thoroughly sound. England is merely being rendered impotent by her fallacious monetary system.

What England now requires is a move similar to the one adopted by Australia. Instead, however, of regulating the supply of her bank-note currency to a reduced *fixed* parity with gold, England's bank-note currency should be regulated to a constant purchasing power in England based upon former higher commodity price levels, letting its exchange rate with gold or with the currencies of other nations take care of itself. The intrinsic worth of such currency would soon be respected, and its natural exchange rate would keep England's imports balanced with her exports, putting England's unemployed labour and capital to work again. Also the liquidation of internal indebtedness of every character would be greatly facilitated. Temporarily a pound note in such currency would be at a discount with a gold sovereign in international trade. Later, however, when the fallacy of gold was recognised, such notes would be at a premium with gold.

The gold price levels of commodities is regulated by forces which England is powerless to influence, as may be evident in the discussions of the ills of the U.S.

England will never get on her feet and put her unemployed to work again by any system that involves higher tax rates and more expensive money for her industries, or that lowers real wages and reduces the purchasing power of her workers for the goods produced by each other. England's serious problems are further discussed in Chapter IX.

Germany's Situation

At the close of the war, Germany found herself saddled with heavy war indemnities, and with

little gold with which to pay, and with a printing-press currency in circulation. As this currency depreciated in value, more was printed, in order to keep the total supply up to the total need in purchasing power for her commerce. This cycle spent itself, and later Germany adopted a bank-note currency, but failed to regulate the supply to a fixed purchasing power in Germany, and thus failed to recognise the possibilities in true worth of a bank-note currency. Germany then made the mistake of borrowing gold for the purpose of "stabilising her currency" at a fixed parity with gold, as some other nations have done. Such measures by nations in a decided debtor position have so far proved only temporary expedients.

Recently Germany has been desperate in her efforts to borrow more gold, which can only make more trouble for herself later on. In the meantime her re-discount rate for bank-note currency has risen to 15 per cent., making money very scarce even for her present low ebb in industrial activity, which may depress it to lower levels.

If Germany arranged for herself a sound bank-note currency of constant purchasing power in Germany, she would soon find that such currency would be respected by international bankers, and that it would purchase gold, if gold were desired, at a rate entirely satisfactory to Germany, and Germany would cease worrying about "gold reserves."

If Germany's exports exceeded her imports, then Germany's currency would be at a premium comparatively, and if her exports were less than her imports, then her currency would be at a discount comparatively.

Russia is doing very well in international trade with a fallacious internal currency that cannot be respected by international bankers, because of its instability in Russia itself. No matter how unsound Russia's internal currency may become, if her foreign sales equal her foreign purchases, she will have no difficulty in her international trade. Regardless of how bad Russia's internal currency may be, Russia is readily obtaining foreign goods to be finally paid for many months after delivery.

If Germany announced to the world that in the future she proposed to maintain her bank-note currency at a constant purchasing power in Germany, Germany's people would soon have confidence in their own money, and her industries would take on new life and Germany would never be worried again about the price of gold.

Those having gold to sell would, in effect, come to Germany and look round to see what they could exchange it for in Germany that would be useful to them in their own country. It would be more equitable to all concerned if the purchasing power of the bank-note currency of constant purchasing power were based upon the purchasing power of Germany's present currency at the time much of her existing internal indebtedness was contracted.

The Problems of the U.S.

In the U.S. deep gloom prevails in many quarters, and, judged by the processes which have been found necessary in extricating ourselves from previous depressions of minor degree under the gold standard,

the present gloom is well founded for several reasons :—

(*a*) High tariff walls are maintained in the U.S., which not only prevent foreign goods from coming into the U.S., but also naturally operate to prevent U.S. goods from going into foreign fields. This lowers world industrial activity at a time when it is most needed.

(*b*) The gold value of standardised commodities and raw materials on the whole is quite well equalised throughout the world at the present time, as it generally is, regardless of tariff walls.

(*c*) Gold is plentiful, and bank-note currency can be obtained at a low re-discount rate in the U.S., while in many other countries the extreme opposite prevails. The low re-discount rate has no influence in raising prices in the U.S., because while it makes gold plentiful in effect, gold is the world currency, and the gold value of commodities is largely fixed by the nations which are pressed for gold. If a few of the productive nations are pressed for gold, the effect on commodity price levels is much the same as if all the nations were short of gold.

(*d*) Russia has become a factor in international commerce. Russia sells the commodities she produces in the countries where she finds a market for them, and buys the machinery and equipment required for her industrialisation programme in the countries where she can get them the cheapest. Under her system, Russia

is not concerned in the least about the gold price levels of commodities. Russia is only interested in a reasonable parity in the prices of the goods she sells with the goods she buys. Russia's internal monetary system has no connection with gold, and her system of operation has no tendency to decrease the chronic instability of gold value.

(*e*) High wages are paid for partial or part-time employment in the U.S., while in some of the other nations very low wages in gold value are being paid for the same production. With the desperate need for gold in some of the other nations, wages in gold value are bound to be low in such nations under such conditions.

(*f*) The people of the U.S. have had a glimpse of what it means in the way of higher living standards when all are employed at equitable wages and when there is equilibrium in industry. Also they have been able to see the possibility of higher living standards and more prosperity if equilibrium in industry can be maintained continuously. Many are convinced that higher living standards in the U.S. will not come through regulating wages to the law of supply and demand in the present world labour market.

(*g*) With equalisation in the gold value of commodities, there must be some limit in the disparity between the wages paid in the U.S. and those paid elsewhere for similar labour. Therefore many believe that wages must be reduced in the U.S. so as to be nearer to a parity with commodity prices. This belief is further

strengthened by the present vast army of unemployed, who would appreciate the opportunity of working at less than the prevailing wages. As there is very stubborn resistance to the lowering of wages, those who think this is the remedy for the situation realise that the process of bringing about prosperity again must be a long-drawn-out process.

(*h*) As under the gold standard the demand for gold and the demand for commodities are kept equalised in world markets, the present maldistribution of gold is likely to cause the continuance of low, or lower, commodity price levels relative to gold for some time. As full employment can rule only with equilibrium between wages and commodity prices, wages must also be lowered in the U.S., or preparations made for higher taxes and the dole, if the gold standard is to prevail.

(*i*) Those dependent upon a prosperity that requires full employment for all workers with purchasing power for the commodities produced by each other certainly cannot be expected to appear cheerful when faced with a long-drawn-out process of lowering wages.

(*j*) Most of the present internal indebtedness was incurred under much higher price levels. Certainly those having liquidation payments to make and taxes to pay cannot be expected to appear cheerful under the prospect of continued low or lower commodity price levels.

(*k*) Under so many adverse conditions, those

having savings have cause to worry about the future and therefore cannot be blamed for being cautious in their spending.

If we all realised that the only value of gold lies in its purchasing power, if we could accustom ourselves to keeping wages in gold value in line with the purchasing power of gold, if we could liquidate our debts in gold on the basis of the purchasing power of gold at the time our debts were contracted, if we could accustom ourselves to varying our appraisement of the gold value of all property and all commodities and all services of every kind with the varying purchasing power of gold, and if we could educate ourselves to readily adjust our wages and all price levels to a gold value that would keep our balance in international trade equitable, we should then find the use of the gold standard less disturbing to our commerce and industry than now, and we should cease to have periods of prosperity and adversity running in cycles.

To accustom ourselves to all these variations would require the continuous exercise of a rather high degree of intelligence and unselfishness if we were to maintain equity and equilibrium in industry under the gold standard.

To achieve the ideal in industry, we must either contemplate the development of the degree of intelligence and unselfishness indicated if the gold standard is to prevail, or we must exercise our intelligence to a moderate degree for a short time, and unfetter ourselves from the gold fallacy, and adopt a bank-note currency of constant purchasing

power, so that equilibrium and the ideals in industry will come to us almost automatically.

The author contends that all our present trouble was brought about through the use of unsound monetary systems by the leading nations of the world, and to restore employment and prosperity for all in the present generation without the elimination of some of our fallacies is an impossibility.

If the U.S. Government would announce that hereafter it would regulate its bank-note currency to a constant purchasing power, regardless of its exchange value with gold, and that the stabilised purchasing power would be the purchasing power the bank-note currency had at a certain date in 1928 or 1929, there would immediately be some cheer for those who realise that full employment with purchasing power of the workers for each other's products is the essential for prosperity, and there would be a ray of hope for those having debts to liquidate, public as well as private, and those having funds available for investment or spending would cease waiting for lower prices.

There has been talk of getting the various nations or the international bankers to agree to a higher commodity price level. This is thoroughly impracticable. Each nation, if it has a sound currency system, has the power to adjust its own price levels in its own currency. Such responsibility devolves upon each individual nation, and is a fundamental right and obligation.

It is quite possible that we were not so far out of balance industrially in the U.S. in 1929. The great harm came with the entirely unprecedented and

unsound demand for money for taking unearned fortunes from the stock market rather than earning fortunes in productive pursuits. Many corporations preferred to loan their surplus funds to the stock market rather than to invest them in their own enterprises under such conditions.

On account of the serious defects in our present monetary systems, an unsound situation in the U.S. was aggravated, and automatically made worse, by the gold resources of other nations. The Federal Reserve Board recognised that an unsound situation was approaching in the U.S. Its only means, however, for combating the evils of rising commodity prices and over-speculation was by raising the interest rate of money; but it had no power to restrict the flow of money from the rest of the world which the higher interest rates in the U.S. attracted.

With any swing from equilibrium, everything connected with our present monetary systems and settlement of international trade balances automatically lends itself to augment a wider swing which can end only with a crash.

Through what has happened in the U.S., in which other nations had a part, the *whole world now suffers from maladjustments.* Owing to the dependence of the whole world upon international trade, the whole world will be handicapped in its prosperity until things are put right in the U.S. Just when a mechanism for our monetary systems, having one adjustment for rectifying internal trade maladjustments and another for rectifying international trade maladjustments, is most sadly needed, we are trying to extricate ourselves from our desperate situation

with a monetary mechanism which is most crude and unsound and inhumane in its operation.

The fact is, had we had a currency regulated to constant purchasing power, which means that the average prices of commodities would have remained stationary, it would have been impossible to have got so far from a sound position in 1929. There was then a shortage of capital for our operations. Now, on account of the lack of confidence, the demand for new capital, the demand for the savings in stored labour, has largely vanished.

Exercise of Spending Power an Important Need Now

We now have acute unemployment of labour and capital, which reduces the spending power of both. We have borrowed too much, and have interest payments to make to the banker.

We have surplus stocks of unconsumed goods which reduce the demand for producing power, and this likewise reduces spending power.

What we need, above everything else, to get things going again is more spending.

The spending power of capital is important, as well as the spending power of labour, and, like the spending power of labour, its spending power depends upon its earning power. The spending power of the farmer, the shopkeeper, the factory owner, the owner of industrial shares, the house owner, etc., as well as the spending power of the worker, are all very important.

While the re-discount rate is low for bank-notes, they are still the equivalent of gold in purchasing

power, and it takes the same amount in commodities to get them as to get gold.

There is no need of money for more or better manufacturing facilities at this time. At the moment we have over-capacity in every industry. There is but little demand for money for building construction at present because the supply of buildings now is considerably in excess of the power to pay rent.

The whole trouble is, those having money available for spending or investment are worried about the unsoundness of economic conditions in general throughout the world, and rightly so. The trouble is not mental, it is real.

Unconsumed Stocks

As stated, the greatest need in the present situation is for spending. The over-supply of certain unconsumed basic raw materials is having a serious effect upon employment and the spending power of labour, and it is also having a serious effect upon the spending power of those who have shares in the facilities for producing these basic raw materials.

The nations of the world should forget as quickly as possible the location of the unconsumed stocks of gold, the fallacious use of which is the cause of the world's present misery and of much of its past misery. The nations of the world should give more thought to the location of the unconsumed stocks of the vitally necessary commodities, such as wheat, cotton, wool, sugar, rubber, coffee, copper, lead, etc., upon the production of which a ten thousand times

greater population depends directly and indirectly for its power to make an honest living.

The present unconsumed stocks of these basic commodities are the direct result of the failure of the Governments of the nations of the earth to provide a sound and suitable monetary system for the present state of the industrial development of the world.

Government Responsibility

The U.S. Government should enable the producers of raw materials and standardised commodities, especially those in the cost of which labour is directly or indirectly the main item, to organise as suggested under (*a*) in Chapter V, thereby enabling them to stabilise equitably the prices of their products and curtail production, so that the stocks will be gradually reduced.

Such action would further assist in restoring confidence, and would result in more labour being employed, thus increasing the spending power of labour, and this might allow some of the industries so aided to disburse dividends which would also be a material contribution to the exercise of spending power. Capital in such industries has made a most valiant effort to avoid aggravating the situation by increasing unemployment. This has been done with great sacrifices to which present market quotations for the shares in such industries bear abundant witness.

The exercise of the spending power of labour will be increased if the Government will inaugurate a system of old age pensions.

Constructive Assistance by Government will Inspire Confidence

If we will all realise that we have all made serious blunders which have brought on a most serious situation, and if our Government will render a little sound and constructive assistance, so that we may preserve faith in our country and faith in each other, and if we will exercise our instincts of good sportsmanship and patience, and not grumble too much if some of us seem to be getting a little the worst of it for a time, with give and take one class of workers with another, and one class of capital investment with another, equitable readjustments can be smoothly and expeditiously brought about, which will bring employment for all, and we shall soon be out of our desperate situation, and well on the road to prosperity.

With a sound monetary system we shall gradually bring about a stabilised prosperity undreamed of in the past.

Possibility of Great Damage if Corrective Measures not Effected

In the present state of our industrial development it is probably not possible to exaggerate the possibilities of a complete breakdown in our civilisation if some intelligent governmental correction of certain most unsound defects in our system is not made. In working out and legalising such corrective measures, the conscientious and co-operative efforts of the best brains in Congress will be required if the corrective measures are to afford the relief so vitally

necessary promptly, and if they are made so thoroughly sound, they will cause no future embarrassment. If we cannot exercise a little more intelligence, *Russia's system may prove more practicable than our own.*

War Debts Conference and International Clearing House

There should be another War Debt Conference as soon as practicable with a view to working out a settlement upon the basis that the debtor nations can only pay their debts as their sales into world markets exceed their purchases. Furthermore, it must be realised that the people of the debtor nations can remain free and enjoy the right of self-determination only through the free operation of the system of private capitalism, and that this system will produce the excess goods with less burden upon all than any other known system.

It must also be realised that, regardless of what wages labour is paid in the debtor nations, capital must have approximately the same net return in the debtor nations as capital receives in the creditor nations if industry is to function.

The nations having sound currency of fixed purchasing power for their internal commerce should organise their International Clearing House, each having a member on the Clearing-House Committee. Membership in the Clearing-House Committee need not necessarily be binding upon any nation. The only object in membership in such a Committee would be the mutual interests of the

nations involved. Incidentally, as previously stated, this International Clearing House and some International Chambers of Commerce would probably be all the " League of Nations " the world would ever require.

Policy that Nations Extending too much Credit should Bear the Interest Burden may be Considered

Now let us consider how a settlement would work out on the sound and just basis that over-selling nations should finance their own over-selling, or finance their own over-extension of credit.

Each nation would deposit all instruments of foreign indebtedness of every kind it now holds with the Clearing-House, or at least advise the Clearing-House of all such instruments so as to clarify the situation as far as possible. Using the U.S. as an example of a creditor nation, the U.S. Government holds foreign notes of indebtedness for which it has already completed the obligation for carrying the capital account—that is, it has floated internal loans, and is now itself paying the interest charges upon them. However, according to the *Golden Rule* plan for the settlement of international balances, the U.S. would never receive interest on these, and the liquidation of the capital account could only proceed as the U.S. accepted international trade balances against her. All such instruments would stand as a credit to the U.S. in the Clearing-House. In the U.S. there are also many instruments of indebtedness held by private banks for loans of gold to other nations and

the banks and commercial enterprises of other nations, etc. The debtor nations could pay the interest and liquidation charges on these from time to time with their own currencies through the Clearing House. However, unless the U.S. accepted unfavourable trade balances in international commerce against her, equivalent to such payments, the U.S. would then, in effect, be compelled to bear the interest on such part of such payments as was not offset by her debit balance in trade. It is quite possible that the exchange rates in the Clearing House necessary to bring about the desirable trade balances against the U.S. would stimulate leaving the interest and liquidation payments on the privately owned credits in foreign fields for reinvestment. Also the exchange rate situation would tend to stimulate foreign investments by the U.S. in debtor nations; but the more practical effect of this tendency would be to stimulate the liquidation of investments made by foreigners in the U.S., all of which would tend to increase the U.S. currency coming to the Clearing-House account of the U.S. Treasury, which it could use as revenue, and this would operate to reduce the credits of the U.S. in the Clearing House. This would tend to enable the U.S. to take smaller debit balances in actual trade, and still allow good progress to be made in the liquidation of war debts; the whole effect of the proposed system of international banking being to correct an unsound situation and bring about equilibrium. Normally, the greater the lack of balance, the greater would be the pressure of the corrective measures.

Present Debts can only be Liquidated by Creditors taking Unfavourable Trade Balances

The present war debts, as already stated, can now, with our present system, or with the sound monetary system proposed, only be liquidated through the U.S. accepting debit balances in international dealings. The U.S., or any other creditor nation, would then, under the plan proposed, choose between taking such unfavourable balances or bearing the interest and liquidation charges arising from such credit balances themselves. If the U.S., for instance, decided to reduce such interest burden, then, with the harmful influence of gold removed, she could proceed with the business-like liquidation with more confidence, as the U.S. would then be able to judge more accurately of the conditions of her own industry and the readjustments it could stand without harm. Likewise, the Governments of the debtor nations could proceed in liquidating their indebtedness with a much more hopeful view, with the usurious burden and unstabilising and demoralising effects of gold borrowing removed.

With the large credit and debit balances involved, international trade could not take quite the same natural paths it would if such balances were removed. It might be advisable to regulate the paths of international trade by international agreements, but with care, the natural total volume of such trade need not suffer. The U.S. could start off by agreeing to take, for instance, rubber, tea and coffee, articles which she does not produce at all, from the countries

producing them, with the understanding with the debtor nations that the U.S. would not allow certain of her products to be sent to the countries producing these commodities, and that the U.S. would agree to accept certain specified yearly debits approximately, in her international balance in trade. It is believed, however, that the sounder course might be to regulate the yearly balances in trade by adjustments of the exchange rates in the Clearing House.

Workers' Living Standards in Creditor Nations would be Raised at Expense of Workers in Debtor Nations

By closely watching her internal commerce, and allowing it to develop gradually and naturally into fulfilling new wants or present wants more fully, the U.S. could probably gradually accept greater international trade balances against her, further reducing her tax burden and further liquidating the international credits in her favour with higher living standards and/or more leisure for her people at the expense of the living standards and/or the leisure of the people of the debtor nations. This could all be done with the bargaining and price fixing for the commodities involved, between exporter and importer, exactly as now, neither of them realising that their respective Governments were liquidating debts through these transactions. The buyer in effect would pay the seller with the buyer's currency, which would be converted into seller's currency for the seller through the Clearing House.

If it turned out at the end of the year that the U.S. purchases had not exceeded her sales abroad suffi-

ciently to suit her fiscal policy, then the currency of the U.S. would be placed at a greater premium by the further discounting of all demands made upon her by the Clearing House; this would tend to give her currency more purchasing power in foreign nations, and give foreign nations' currency less purchasing power for U.S. goods and investments.

Accounting in Liquidation of War Debts

By accepting a debit balance in international trade, including currencies exchanged, the U.S. Treasury at the end of the year would receive more of its currency in its Clearing-House account than was paid out, to the amount of such debit. The U.S. would be privileged to use such surplus in paying interest and liquidating charges on the foreign obligations it is holding, and for which it is responsible, thus reducing the tax burden of the people of the U.S., and, in effect, distributing to all the people the benefit from the payment on the foreign debt owed to the U.S. In the Clearing-House accounts, the Clearing House would apply all of such surpluses against the capital amounts of the U.S. credits, and likewise credit the debit capital amounts of the respective debtor nations having the surpluses in trade balance.

With the Clearing-House operation, all that is necessary for the liquidation of an international debt is for the creditor nation to buy more than it sells in world markets, and for the debtor nation to sell more than it buys. It is immaterial with which nations the buying and selling transactions take place, as by the Clearing-House operation it is

possible for a debt between two nations to be liquidated without any trade transactions whatsoever taking place between the two nations involved.

In the Clearing-House accounts a debtor nation would not be listed as owing an account to some other particular nation. All nations would be listed merely as creditor nations and debtor nations at the Clearing House, and it would be no concern of any nation where its importers bought or where its exporters sold. No nation would have any outside accounting except with the Clearing House, thus reducing the accounting for international settlements to a minimum. This would all be in keeping with the sound *Golden Rule* plan for settling international trade balances.

So far as the people of a debtor nation are concerned, they would notice the taxes they were paying resulting from the internal financing required by their Government to pay for more currency demanded of it by the International Clearing House for paying its exporters, than the International Clearing House returned to the Treasury of the debtor nation, resulting from the foreign purchases of its importers.

As the debts neared liquidation, the U.S. could gradually reduce the yearly balance in trade she would accept against herself, and take the necessary measures to gradually expand her export trade, so that when her credit balances were extinguished, her exports would equal her requirements for foreign goods. With the debts entirely wiped out, the world could then have the freest of Free Trade, and would have an equaliser that would keep it on an even keel.

By the method of international banking proposed,

it will be noted, the creditor nation would have its foreign trade disturbed, and would continue for a time to have important interest obligations to meet. This is approximately what happens when a merchant mismanages his business by extending too much credit in internal commerce.

We are all suffering from the results of our own gross crimes against sound economic law, most of them innocently committed. In working out a settlement of our unhappy predicament, it will probably be well not to look for too many beams in each other's eyes, or worry much about who has been the greatest transgressor in the past; but rather be guided by what will make for the best in the future for all concerned. THIS GENERATION WILL BE FORGIVEN FOR MAKING SOME COMPROMISES NOW IF IT PLACES FUTURE GENERATIONS ON SUCH A BASIS THAT A SIMILAR SITUATION CANNOT AGAIN ARISE.

As suggested previously, THE MOST VITALISING AND MOST CONSTRUCTIVE FIRST MOVE that could possibly be made in the present circumstances is a move to a sound currency in each nation. A currency in each nation based upon a constant purchasing power at former higher price levels would work wonders in putting unemployed labour and capital to work again. Then, with the evil consequences of adverse trade balances removed and with a little assistance by the international bankers, and some temporary understandings between the Treasuries of the important nations as to currency exchange rates to be allowed during the transition period, international trade would soon take on new life.

CHAPTER VIII

FOREIGN INVESTMENTS AND FREEDOM FOR SO-CALLED PRIMITIVE PEOPLE—RUSSIA

APART from the small quantity of manufactured articles now being sold in undeveloped nations, the most inviting field for international capitalists of the nations we now consider highly developed will be in furnishing the undeveloped nations with tools that will increase their productive power and their purchasing power correspondingly. The *Golden Rule* plan in international trade settlements will facilitate this, and will stimulate ownership and management of factories and labour-saving facilities in the undeveloped countries by the successful manufacturers of the more developed nations.

A corporation excelling in the manufacture of a certain type of goods would gain a greater reward by establishing branch factories abroad. In general, the maximum reward for establishing a factory abroad would be gained by sending all the tools and equipment required from the highly developed nation, and then raising the money locally for the local expenditures required in getting such an enterprise under way. In this way no part of the capital involved would pass through the Clearing House. The highly developed nation would be benefited by

the activity in producing the tools and equipment. So far as the nation receiving them is concerned, such tools could be looked upon almost as a gift from the highly developed nation, and if the undeveloped nation had a sound currency system, the only effect upon it of the money obtained locally would be the increased activity and prosperity of its people.

Send Generator of Purchasing Power with Exports

In this way the expert manufacturer would not only supply the tools and the management, but along with them would go a generator of purchasing power for the products of the tools, and the expert manufacturer would sell many more units of his merchandise in the foreign country than he would have been able to sell by manufacturing at home. The profits per unit of merchandise would undoubtedly be quite as much as on the merchandise produced at the home factory and sold in the foreign field, so that the total profit resulting from the foreign factory operations would be much greater. Bringing the profit back to the home nation through the International Clearing House would be quite a different matter from bringing back the total selling price of the goods made, through the Clearing House. Also, such profit would not have resulted from the unfair exploitation of labour in either country. It would be a just reward for having given useful employment and improved purchasing power to the workers of both countries.

The undeveloped countries need cotton and

woollen mills, factories for better agricultural implements, tractors, building materials, household utensils, furniture, bath tubs, musical instruments, wireless sets, automobiles, etc., etc. This would add greatly to their purchasing power for foreign goods of all kinds later on.

Eventually, the now undeveloped nations will develop certain lines of industry in which they will particularly excel, so that the products of such industries will pass freely into the markets of the world, and each nation will tend to concentrate on the production of those things which it is particularly adapted to produce.

Raw materials and substitutes for present raw materials will have a much greater proportional importance in the international commerce of the future than now.

Incidentally, all industry would be free from the burden of carrying the gold producers.

As suggested previously, the currency of the highly developed nations, having greater ease in production, would tend to be at a premium in the Clearing-House transactions with the *Golden Rule* trade settlement plan proposed in operation, and this would automatically protect the highly developed nations in their higher living standards.

Fallacy of Gold Responsible for Bondage of Many People

Many of the so-called primitive people of the earth to-day are in their present condition solely on account

of the world's fallacy about gold. Take, for example, Yugoslavia, from a peasant family of which came Michael I. Pupin, one of our foremost scientists, who by accident, it may be said, happened to get to America as an immigrant boy. The people of Yugoslavia are intelligent and industrious. They have no tools, and they toil from daylight till dark to eke out a meagre existence. Given tools, or the ability to acquire tools, they would soon be producing for themselves all those things which we consider our everyday necessities in our so-called highly industrialised nations, and some of their products would exchange with products of other nations in world trade.

Simply because a nation does not happen to have gold deposits within it, or because it does not have an exportable surplus of consequence in commodities for which it can obtain gold, regardless of the willingness of its people to work and produce, are these sound reasons why such a people should be held in subjugation generation after generation? Have not such peoples been kept in the bondage of gold long enough? Has not the world been deprived of the potentiality of such peoples long enough?

RUSSIA

In Russia we have an example of a large State becoming industrialised by a system of State capitalism and unprecedented self-sacrifice of its people. Russia is importing tools and methods for her industrialisation that we believe could not have been evolved in centuries, if ever, by the system she

is now adopting; but there is no reason why she should not profit by the developments of others. There is no question but that Russia is making rapid strides in her programme, and that at least a part of her people are finding more satisfaction in life than they experienced under their previous regime.

Russia has certainly been wise in adopting a system that has freed her from the yoke of gold. Many five-year periods, however, under the most favourable conditions, are required to develop any people into highly efficient modern industrial producers.

Russia at work with purchasing power would be a much better asset for the best interests of the rest of the world than a Russia idle and inefficient and without purchasing power. Her present currency system seems unsound; but a country having the resources of Russia can stand quite a lot of printing-press money and possibly it can later be stabilised on the basis of purchasing power, without greatly disturbing her form of capitalism. This is not quite clear to the author, however, without some form of taxation and interest payments by the Government for the use of capital. Until Russia has means for stabilising her currency, she would probably not be eligible for membership in an International Clearing-House Committee. However, she could exchange her products for the currency of another nation, and this currency she could exchange through the International Clearing House into the currency of any other nation from whom she wished to buy goods. Russia could not sell into the world's

markets more than she bought from the world's markets. Russia would therefore operate under the International Clearing-House plan almost exactly as she does to-day, whether she had representation on the Clearing-House Committee or not.

To suddenly start exporting rather large quantities of a few commodities from Russia into the world's markets unaccustomed to receiving from this source is disturbing to world commerce. Under this condition, when Russia sells heavily into one country from which she does not buy, it is especially embarrassing to such country.

In many instances Russia would undoubtedly do well to consider interesting foreign capital in some of her capitalistic enterprises, just as all other undeveloped nations have done in the past. In developing a nation, capital is necessary, and it really makes little difference where the capital comes from. The important thing is to interest capital, whatever its source, in such development.

To industrialise Russia in one generation without the aid of outside capital would place a most severe and really unnecessary burden upon the present generation. The future generation will greatly benefit, regardless of whether industrialisation is accomplished through the banishment of foreign capital and the intense sacrifices of the present generation, or whether it is accomplished with less sacrifice by the present generation through the sound assistance of foreign capital. The comparatively small amounts in profits going to investors in foreign nations would be much more than offset by the more

efficient management afforded by the capital from such sources.

When the other nations adopt sound monetary systems, Russia would probably find it advantageous to change over to a sound system of private capitalism.

Russia can then advance herself in an orderly way by forming all her various capitalistic enterprises into stock companies, and then, in effect at least, distribute the shares as equitably as possible among all her people, and arrange for a currency and banking system similar to the U.S. Federal Reserve System, but regulating the supply of currency to an index of purchasing power and arrange a tax system for raising the funds necessary for Government operation. In such circumstances, if actual distribution of the shares of the various enterprises were made, they would soon gravitate into the hands of those who save, and are capable of affording the most efficient management.

CHAPTER IX

ADVANTAGES IN WIDE USE OF ONE CURRENCY—PROTECTIVE TARIFFS—ENGLAND'S TARIFF PUZZLE

What made England Great and what made America Great?

ENGLAND became great because of her resources in coal and iron, and because of her intelligent, industrious people in an age when it was possible to exploit the less intelligent people of other nations having gold, and when it was possible for her leaders to exploit her less fortunate people.

America is great to-day because, through her good fortune, she happened to have gold in an age that was deluded by gold, and because her people came from a stock having leaders of sufficient intelligence to refuse to be exploited.

The strength of America as an industrial nation has been attributed by many to the "Free Trade" existing between the various states, and this is used as an argument for Free Trade and "Empire Free Trade" in England, and is a good argument as far as it goes. But there is another most important contributing factor to America's success and power—namely, all the States of the U.S. use the same currency. This currency is under Federal control,

and its use permits any more productive State to ship much more in goods out of it *forever* than it receives from all the other states, and this is done without the slightest internal strain, and with a benefit to all on the whole.

In America the results would be quite different if each State insisted upon using only its own currency, and insisted upon having its credit balance paid in gold.

For Maximum Prosperity British Commonwealths require more than "Empire Free Trade"

In England there has been much talk about "Empire Free Trade." In a time of war one nation will make generous concessions to another. In peace-time any nation is very reluctant to make a concession that adversely affects its exchequer. England is therefore not making much headway with the proposal for "Empire Free Trade." The *Golden Rule* system in world trade, as proposed in previous chapters—Free Trade with all the world—through an International Clearing House, would be much better for England and all her Colonies, while each has its own currency system, than "Empire Free Trade" alone. With the gold system and its periods of prosperity and adversity, or with the fair-play system and its stabilised prosperity, each Commonwealth would be limited in the long run in the goods it could ship away by the goods it could receive. A British Empire with one currency system, functioning much as the Federal Reserve System functions

in the U.S., would be quite a different inter-Commonwealth trade vehicle from "Empire Free Trade" alone.

As a matter of fact, no special economic community of interests exists between two commonwealths or nations having separate currencies, and any plan for one to favour another more than all others is merely an act of economic self-sacrifice. Even though the two concerned carefully worked out a system of reciprocal tariff preferentials, one or the other would almost surely benefit economically at the expense of the other, and for this reason any such arrangements would be unsound in principle. Furthermore, such arrangements would tend to cause international jealousies and ill feeling in other nations.

The United States of Europe

The countries of Europe, with sound currency and the fair-play plan for international trade settlements, would be a vast improvement in every way on present conditions. A United States of Europe with an international bank and one currency system, would be quite a different inter-nation trade mechanism. The ultimate in such currency arrangements would be one currency system for the entire world, regulated by an international bank, with branches and sub-branches in each nation. The objection to such a plan at present, if it were feasible otherwise, would be that without barriers it would tend to equalise living standards in all countries, and the living standards of the more developed nations would

suffer, and such nations would be justified in objecting. Such a system would also bring greater pressure for emigration from the less productive areas to the more productive areas, much as we have seen it in the States.

Wicked Enforcement of Economic Handicap

Forcing a number of additional gold standard currency systems upon Central Europe since the war is largely responsible for the plight of Central Europe, which is keenly felt in other parts of the world.

Dr. Curtius of Germany has been striving to alleviate the situation by arranging a Customs Union between Germany and Austria. This might effect an improvement over their present situation under the gold standard. However, if such nations with a sound currency joined in an International Clearing-House plan as proposed and described previously, a Customs Union of all the nations of the earth, they would be afforded a vastly greater relief.

With such an arrangement, the handicap of so many currencies would be gradually overcome. The advantage of one currency for all the nations of Central Europe would, with a few adjustments, soon disappear. For example, suppose one nation had immense coal deposits, and there were no other coal deposits in the surrounding nations. If the ownership of the deposits remained entirely in the coal-producing nation, and if the coal-producing nation had no other resources for supporting a population,

then the money received for the coal sold in foreign nations would be used for buying all the other goods consumed in the coal-producing nation, and no strain need be put upon the monetary systems of the nations involved. However, if the coal-producing nation also had other industries which made it self-contained, and if it received but little goods from other nations, and if the ownership of the coal mines still remained in the coal-producing nation, then it would be impossible for the coal nation to bring back the money received from the consumers of its coal in the other nations through the Clearing-House system proposed for international trade settlements, without putting an important premium on the currency of the coal-producing nation, which would result in more foreign goods coming to it. This situation would be modified if the shares in the corporations which developed and owned the coal deposits had a good distribution among the people of the nations consuming the coal. In this way the capital charges and the profits incidental to the production of the coal could be distributed to those entitled to receive such capital charges and profits, without causing a differential in the exchange rates of the currencies of the nations involved.

With the *Golden Rule* settlement of international trade balances in operation, more international-mindedness on the part of those operating industrial enterprises supplying products to outside nations and on the part of those having capital to invest would be brought about. This would not be harmful in the least to the peace and

goodwill between the nations having dependence upon each other for their maximum in prosperity.

While reducing the number of currencies now being used would probably afford relief more quickly, if it were practicable, it is believed that, by allowing each nation to be responsible for its own currency system, each nation will be able to afford the greatest prosperity for all its people under the conditions prevailing within its own confines.

Protective Tariffs

With the *Golden Rule* system in effect for settling international trade balances, the use of protective tariffs and safeguarding duties would take on a slightly different aspect. In the U.S. protection has been very useful in fostering new industries which the U.S. was particularly well adapted to excel in, when such industries became established. Under the *Golden Rule* system of international trade settlements such protection would still be sound. In the U.S. certain industries have enjoyed protection in which the U.S. is not so well adapted to excel. Protection for such industries has been useful in affording employment for labour and capital, and in preventing the serious weakening effect of materially adverse international trade balances. Such protection has, however, increased the cost of the products of such industries to the consumers, and has tended to restrict the direct use of such products and the building up of other industries which require such products.

Protection has been afforded certain raw materials and the principles involved in sound tariffs are illustrated in the cases of lead and copper. For instance, nearly enough lead is produced in the U.S. to meet the demands of the U.S. At times the consumers, however, have had to pay from 25 to 50 per cent. more per pound for lead than the consumers outside the U.S. have paid, which has probably tended to reduce the use of lead in the U.S. below what it would have been had it been available at the price enjoyed by the rest of the world.

For a long time the U.S. has produced much more copper than has been required for the consumption of the U.S., and has been exporting a large surplus into the world's markets. In the last boom period, however, there was little surplus for export, and no new deposits of consequence have been found in the U.S. for twenty years.

On the other hand, large deposits have been developed in South America and South Africa, and the U.S. producers have been agitating for a protective tariff on copper. If such a tariff stimulated the finding of new deposits of consequence and placed the U.S. mines in a position to furnish copper to the consumers in the U.S. as cheaply as South America and Africa could furnish copper to them, then such a tariff would be justified and would be sound under the fair-play system of international trade settlements. However, if such a tariff operated to make copper more expensive to the industries requiring copper and hastened the complete exhaustion of the copper deposits in the U.S., then

such a tariff would not be sound, and the employment of the labour and capital thus artificially stimulated in copper production would be more beneficially utilised in pursuits in which the U.S. is better adapted to excel.

With sound currency and the Golden Rule in international trade settlements, the food-producing nations will become more industrialised and will develop higher living standards. Agricultural production will be much more mechanised than now, and the country workers will have living standards approximating to those of city workers.

A nation not so well adapted to food production could afford protection to food production industries; but unless such protection would stimulate industrialisation of food production to the extent that the industries protected could be developed so as to sell food about as cheaply as outside nations could furnish it, then such protection would only serve to raise the cost of food in the nation affording the protection, and would be unsound. The capital and labour so occupied would be more profitably employed, from the nation's best interests, in pursuits in which the nation was better adapted to excel.

The ideal to be aimed at is that each commodity produced be allowed to find its own natural price parity with all the other commodities in the world markets, and that no commodity enjoy any artificial advantage in a particular nation over a long period.

England's Tariff Puzzle

Since Chapter VII was written, and the prediction made that without a change in her system a crisis

was in store for England "sooner or later," the symptoms have become more pronounced, and at the time this is written—the end of August 1931—all the more important leaders are warning that a financial crisis has only been very narrowly averted. A number of measures are being proposed to forestall a real collapse; and among the other expedients being proposed in many quarters is a flat duty on all imports.

The immediate cause of England's present concern is that her gold reserves have been depleted to the danger point. This is due to the decided adverse balances in international trade in the commodities of commerce for some years past. For a time this was offset, so far as gold movements are concerned, by the earnings on foreign investments, but the time has come when this is not sufficient, and it is clearly apparent England must now face the disagreeable realities.

The direct causes of England's failure to maintain her former position in world trade are the high taxes and the high gold wages in England. These have resulted in a high gold cost for all her products, which has naturally hindered the movement of England's goods into world markets.

If England were a self-contained nation, and had good resources for producing all the raw materials necessary to her standard of living, a flat protective tariff on all imports, as proposed, would afford a painless remedy for England's ills. But England is not self-contained and requires much from abroad. Placing a duty upon all imports, while retaining more of England's purchasing power for manufactured goods produced at home, would increase her imports

of raw materials. The duty on the raw materials, while affording revenue, would directly increase the gold cost of England's products and make their movement into foreign markets still more difficult, and quite probably on the whole the adverse trade balance would be made worse rather than better.

England might place duties upon manufactured products only, allowing raw materials and foods to come in duty free. England would still require raw materials, and such an expedient would not reduce England's gold cost of producing goods, which is necessary if they are to move more readily into foreign markets.

Every tariff is a barrier to international trade, and as a policy for a country situated as England is, would be economic suicide. With all the other nations protecting their industries by tariffs, England's only defence based upon previous tactics is a defensive tariff policy. However, such a move would not be constructive, as a few more tariffs would complete a world blockade of international trade.

Under present conditions England needs protection, beyond any question, but she requires protection that will reduce the gold cost of her products, instead of increasing their gold cost, which would result from ordinary protective tariffs or safeguarding duties under the present gold standard. The absolutely ideal protection for England under her present conditions would be afforded exactly by the move proposed for England on page 71.

As suggested, a very important cause of England's

present distress is the high taxes due to the immense internal debt incurred in the prosecution of the Great War. Other European nations have enabled themselves to readily compete in world markets by the wiping out of practically all internal indebtedness, public and private, existing at the end of the war. Also where it seemed advisable they have reduced the gold value of wages.

For reasons given in Chapter VII, while the gold standard monetary systems prevail, commodity price levels in gold are likely to fall further and remain low for some time. Such conditions make the payment of liquidation and interest charges on obligations previously contracted at higher commodity price levels more difficult.

England's desire to repay her people for the loans made during the war is very commendable, but equity does not demand that *more be returned* in purchasing power *than was received.* The same applies to all private indebtedness.

England is suffering from entanglement in economic fallacies much as some other nations are suffering. If in her present desperation England tightens on the wrong rope now and further fouls herself, the consequences will be serious indeed.

If England persists in trying to muddle through without getting at the root of the trouble which causes the unemployment of her resources in labour and capital, repudiation of her war loans and the suffering which would accompany the condition making such an act necessary, are inevitable.

The real root of all of England's trouble which

has been steadily accruing for some years now, is the widespread delusion in regard to the sacredness of the gold exchange rate of the pound sterling.

With the purchasing power of gold greatly increased, as it has been, and as it is likely to continue, England's difficulty in liquidating her internal debt has been greatly increased, as previously suggested, and to maintain the fetish for the pre-war gold parity and liquidate the indebtedness, too, is becoming more and more impossible.

Lowering the gold parity of the pound note is the only remedy for England, which will give protection to her industries, lower the gold cost of her production, and afford equity in the liquidation of her war debts. Under the circumstances, can anything more be legitimately asked for by anyone in England?

To those who say, "If a mistake was made in raising the pound note to its pre-war parity, it is too late to undo it now," the answer is, A wise mariner will always change a course that is leading him upon the rocks. Increasing unemployment and increasing taxes beset the course set by England's mariners in 1925. The rocks of financial collapse now plainly visible can be avoided only by a change of course.

If intelligence is used there need be no worry about over-population reducing the opportunities for success and prosperity to anyone in England as long as the world, as a whole, affords sufficient food and sufficient fuel for all. With sound currency and intelligence in the regulation of wages, England would again become a land of opportunity.

CHAPTER X

CAUSE OF WAR REMOVED AND CONTINUOUS PROSPERITY POSSIBLE IN THIS GENERATION

THE great majority of the nations of the earth have almost always been under economic pressure. They have almost continuously suffered from the direct results of our fallacious monetary systems and from our fallacious method of balancing international trade accounts with gold.

The administrative heads of nations, besides having the responsibility for preserving law and order, and many other responsibilities, have always had full responsibility for their nations' fiscal affairs. The popularity of such administrative heads with their people, in the final analysis, has almost entirely rested upon the degree of prosperity enjoyed by their people during their administrations or during their reigns.

Economic stress is almost always the real cause for the desire for a change in the administrative branch of a Government. Economic pressure is almost always the real cause for "revolutions" and the disorderly change from one chief executive to another.

When an election approaches, bringing about uncertainty concerning a nation's future fiscal policy, those having savings are often hesitant about their investing and spending.

As the executive heads of nations have noted the

tremendous advantage enjoyed by those nations having favourable trade balances, such executives could not be blamed for casting covetous eyes upon territories having, or capable of having through exploitation, exportable surpluses of goods. Such administrative heads, feeling the strain of economic pressure, have been quick to accuse other nations of "dumping" into their nation, as if this so-called "dumping" were a deliberate policy specially encouraged by the heads of the more favoured nations. As a matter of fact, almost all of this so-called "dumping" has been done by individuals of other nations acting independently, and such individuals have not "dumped" without profit to themselves. Their profits have often been possible through the superior gold position of their respective nations.

Often a nation has felt compelled, in justice to its own people, to arrange tariff barriers which have been disturbing to the trade of other nations. Such acts have been irritating, and have often been looked upon almost as acts of war by nations whose trade has been thus disturbed.

Such conditions have caused bitter jealousies, and have caused friction in the international dealings of the executive staffs of the various nations. Appeals have been made to the patriotism and passions of their subjects, and international animosities have been fanned and kept glowing.

Were not such conditions and such practices responsible for the Great War?

In the internal affairs of a nation we have no such unsound condition which irritates and exasperates,

and which executives are so powerless to alleviate. If we had such aggravating situations in our internal affairs, resorting to force and carrying arms would still be our daily habit.

The thorough unsoundness of our present monetary systems causes this pernicious international stress for gold, and is the great bar to disarmament and world peace.

Have we not allowed gold to be " the root of all evil " long enough?

With the *Golden Rule* system operating in international trade, the pressure for gold and stress for foreign trade would disappear, and the nations of the earth would find all the elbow room they want for their energies. International jealousies and friction would disappear. Each nation would strive to keep its own industry on a sound basis and would seek to buy as much as it wished to sell.

International co-operation would automatically replace international competition and rivalry.

It will be seen that while our present monetary systems have already shown us the futility of international loans for conducting war, with the *Golden Rule* settlement of international trade balances in effect, a nation entering war would be dependent entirely upon the sinews it could itself supply.

No nation would be much interested in making a loan to a warring nation, when the only way the debt could be liquidated would be by goods at a later date.

What Would we do with Gold?

With gold and its unstabilising influence on internal commerce removed and its very unfair and

unsound influence on international commerce removed throughout the world, the question then arises, What would the nations of the earth do with the gold now in their exchequers? So far as its value for internal or international currency is concerned, it could be completely destroyed, or the nations having it might erect a number of monuments throughout the world made of solid gold from their gold reserves. On one side of these monuments might be inscribed :—

> "To those who through the ages have toiled and slaved to extract from the earth its gold,"

and on another side—

> "To those who have bled and perished upon the battle-fields because of inter-nation rivalry for gold,"

and on another side—

> "To those whose hopes and ambitions have been crushed, and who have suffered from want in the midst of plenty on account of the fallacy of gold,"

and on the fourth side—

> "To those who were injured, that peace on earth and goodwill towards men might be hastened through the casting off of the yoke of gold."

By using all gold reserves now on hand for such monuments, the purchasing power and effectiveness of sound bank-note currency need not be affected in the least. However, gold, which now of itself affords neither food, raiment nor shelter, is a very desirable metal in the arts, and our arts and our development would be benefited in many ways by the use of more gold for such purposes. The gold now in the exchequers of the world has taken many centuries to produce. There need be no hurry about its disposal.

It might be well for the nations having the gold to form a pool and gradually work it off into the arts, affording as much stabilisation as possible in the price.

If any are doubtful about the practicability of a scientifically regulated bank-note currency, such might feel safer if they could have the option of exchanging their good currency for gold at any time in the next twenty years, the basis for such exchange at any time being the then value of their bank-notes in purchasing power and the value of gold per ounce in purchasing power at the time chosen as the basis for the stabilised purchasing power of the bank-notes. Gold's value is largely due to the way the Governments of the world at the present time fallaciously tie gold, a commodity of varying value, to their bank-note currencies, which have unimpeachable security behind them, though generally not now recognised.

Those Injured by Demonetisation of Gold

It will be said that with such a drastic move as that proposed, the gold industry would suffer. This is true. With such an unsound feature in our economic structure there would be suffering by many in the readjustment to a sound basis, but such suffering would be infinitesimal compared with the suffering that would be removed from others of the present generation through the pointing of a way out of their present impossible situation, and the hope that would be given to those people now in abject poverty through their bondage by gold—to say nothing of the peace and happiness of future generations.

So far as the workers in the gold industry are concerned, they would soon be absorbed in the other industries that would take on more stable prosperity. Much of the gold now being produced is a by-product in the production of other metals. Johannesburg, however, might be injured quite seriously, and undoubtedly a plan could be worked out for equitably assisting the people of South Africa.

The mines of Johannesburg, it is thought by many mining experts, will be pretty well worked out in any case in less than fifteen years, and will then go the way scores of gold-mining camps have previously gone in the world's history. So-called gold-mining camps have always had a comparatively short life.

Changes may be made Retroactive

So far as those nations whose people hoard gold coin are concerned, such nations would establish for themselves sound internal currency systems, the purchasing power of which would correspond to that of gold at a certain convenient date before there was any discussion about the possibility of gold being eliminated from international trade transactions. Such nations could assure their people that the gold exchanged for the bank-notes would be held, and would be returnable to them at any time within twenty years, say, in exchange for the same amount in currency as they received when they parted with the gold.

Likewise, all adjustments made necessary by the elimination of gold from the world's currency and by the change to the sound system of international exchange would be based upon the value of gold at

a date prior to any public discussion of the plan proposed, in order to disturb the normal operation of commerce as little as possible during the transition period.

Dreams of Reasonable Humanitarians and Reasonable Captains of Industry and Disarmament can all be Realised in this Generation

Labour will be exploited, prosperity and adversity will run in cycles, and ill-feeling between nations will continue as long as gold is used for settling international trade balances.

With sound settlements of international trade balances and with sound currency within nations, each nation and each industry within a nation would only bring about the highest state of prosperity for themselves through the highest possible purchasing power of the people within the nation. The freest of Free Trade and what is going on in another nation, would be but little hindrance to the accomplishment of any of these desirable ends.

With an equaliser in use that would automatically correct any maladjustment in international trade and restore equilibrium and with an internal policy among the people of pay as we go in our non-productive spending, there would be no recurring cycles of prosperity and depression. Speculation in commodity prices and in the earning capacity of real producers would be largely eliminated.

Our present system of allowing one nation to sell more into the world's markets than it buys, and compelling the debtor nation to finance the creditor nation's over-selling with gold, is a fallacy which causes the dreams of reasonable humanitarians

and the dreams of reasonable captains of industry to go wrong.

With our fallacy removed, the great aim and purpose of each nation would be for the greatest possible enjoyment of the fruits of industry by each man, woman and child within it, and this would be realised in an ever-increasing measure.

With the spirit of *Golden Rule* and live and let live forced upon us in our international dealings, we would realise that the battle of Armageddon had been fought, and we could proceed with confidence in beating our swords into ploughshares.

Should the more fortunate seriously complain of their high taxes while a fallacious monetary system prevails which leaves the less fortunate with Government alms as their only means of subsistence?

By extricating itself from the toils of gold, and establishing a currency of constant purchasing power at equitable price levels within its own confines, each nation would enable natural economic forces to function in automatically casting off depression and bringing about a lasting prosperity for itself and a tranquillity with its neighbours only dreamed of in the past.

THE END